App. F. IX-4

P

1938.
(CS)

Previous References

File No. 109-3
Serial Nos. 1-3

Later References.

P-17(E)

PRESERVED

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. 3

Part B for Mar 40.

SUBJECT.

Circular No ACD. 528/77-39 D/12-6-39 from the Deputy Governor of the Reserve Bank of India re: Certain Suggestions to reorganise the Co-operative movement on Banking lines

WD 0578—GPB—22,500—12-9-39

7385

General and Revenue Secretariat | Vol | File No. 109 of 193 | [App. F. III-2

Serial No.

Copy of a circular letter No ACD-528/77-39 dated 12-6-39 ~~from~~ from the Deputy Governor of the Reserve Bank of India to all the Provincial and Central Cooperative Banks re Certain suggestions to reorganise the Cooperative movement on banking lines.

1) It is ascertained that Copies of the Circular letters and bulletins from the Reserve Bank of India are being received in the office of the Registrar of Co. and also in the Mysore Provincial Bank. After Bank. This circular will, after perusal be placed before Govt

2) For Perusal

GENERAL SECRETARIAT 26 JUNE 1939 524

24/6/39 Genl. Secy

24/6.

3) The remarks of the Registrar may be framed, as to how far the suggestions can be adopted.

2nd Member)

26/6

4) 27.6

27/6

5) Draft Govt for above

28/6

6) Issue

28/6.

JUNE 1939 A 2558

NOTE—Contn. Sheet.

Reorganisation of the Co-operative Movement on "Banking lines"

CS File No. 109 "A" of 2253 3773 of 1938. General and Revenue Secretariat.

Serial No.	
2	

No. D36 of 1-7-39 To the Registrar C.S.

Calls for a report as to how far the suggestions made by the Bank Conference could be adopted.

Letter No. 10833 dated 19-3-40 from the Registrar of Co. forwarding the copy of the resolutions passed at the All India Registrars Conference

1) It is submitted that the file containing the several resolutions passed at the All India Conference has separately been submitted with the remarks of this office. The question of proportion of deposit liabilities to owned capital is being followed in Mysore as per orders dated 15/11/37. 2) As regards the acceptance of long term deposits it is submitted that not only the Apex Bank and Central Bank but also the urban banks like the Bangalore City Co-op Bank cannot perhaps dispense with the acceptance of long term deposits. Fixed deposits are accepted for a period of ten years and the rate of interest is fixed at a maximum of 4½ per cent. The rate of interest allowed on deposits cannot perhaps be considered as very high. The acceptance of current deposits is reported to have been frowned by Banks & Societies. It is for consideration whether it is desirable to obtain information

GEN. SECTT. 3771 DEVELOPMENT BRANCH

DNo 3194

(7 D No 13 below) (Savings deposits RJ 1-73 below)

14 year rate 2¾%.
3 year " 3¼%.
5 " " 3½%.
7 " " 4%.
10 " " 4½%.

3773

3

General and Revenue Secretariat | File No. of 194 . | [App. F. III-2

Serial No.

A.

as to the result of such acceptance of long term deposits and whether the action has led to the achievement of the aim of reducing the average borrowing rate [illegible] for ours

[illegible] 5/4 9) A. may be done 12/4/40

Genl: Secy

10) Submit for perusal. As the Registrar has taken [illegible] to take action in this matter the papers may be filed.

2nd Member 16/4

11) 19.4.40

21.4

[illegible] 22/4

[illegible]

GENERAL SECRETARIAT
13 APR. 1940
6378

MEMORANDUM
No. 9093

22 APR. 1940
AGRI. & FOREST BRANCH.

NOTE—Contn. Sheet.

C.S 109-38-1

A. 7388
20. 6. 39.

RESERVE BANK OF INDIA

Agricultural Credit Department,

BOMBAY.

Ref. No. ACD/-528/77-39. *12th June, 1939.*

To -

ALL PROVINCIAL & CENTRAL CO-OPERATIVE BANKS.

DEAR SIRS,

Re-organization of the Co-operative Movement on banking lines.

In paragraph 38 of our Statutory Report under Section 55(1) of the Reserve Bank Act we stated that we would issue from time to time circular letters indicating what in our opinion were the criteria of sound banking which would justify our making advances to co-operative banks and also laying down the procedure for obtaining loans and advances from us when these conditions were fulfilled. Accordingly the first circular letter was issued on the 14th May 1938 setting out the procedure to be followed by co-operative banks for obtaining financial accommodation from the Reserve Bank. In this circular which is the second of its series an attempt has been made to clarify some of the issues raised in the replies to our first circular and to indicate the manner in which co-operative banks might organize their business on banking lines.

2. The general need for the re-organization of the co-operative movement on banking lines has already been emphasized by us in paragraphs 21 and 24 of our Statutory Report. As pointed out there it is only in so far as co-operative banks follow sound business methods that they will be of real and permanent value to the agriculturist. We recognise that the particular circumstances of a bank and the environment in which it operates have to be taken into account. Nevertheless we believe that general principles are of value inasmuch as they have stood the test of experience and we feel certain that their observance with suitable modification will greatly contribute to the progress of the co-operative movement.

3. It is sometimes alleged that the principles of co-operative banking are fundamentally different from those of commercial banking. This is incorrect. In all essential respects the nature of the business of co-operative banks is the same as that of commercial banks. Both types of institutions accept deposits and are therefore responsible for investing their funds in such a way as to safeguard the interest of their depositors. The same considerations of safety and liquidity in the employment of funds are essential for the stability of both. The principal difference is that whereas commercial banks lend to trade and industry, co-operative societies make advances mainly to agriculturists. The fact that the agricultural cycle is longer than the commercial and that the co-operative banks are not primarily concerned with making profits for their shareholders does not

make any essential difference in the fundamental principles which both types of institutions have to observe as banking concerns. As a matter of fact, the type of business the co-operative banks are called upon to undertake makes it all the more necessary for them to observe strict business principles.

4. In particular it is desirable that co-operative banks should distribute their assets in the same manner as commercial banks. In this connection we might describe the practices followed by commercial banks in Great Britain and in India in the employment of their funds. Commercial banks have to maintain their assets in such a form that a large portion can always be readily realizable in case of necessity. For this purpose they keep the greater portion of their funds in the form of cash and other liquid assets such as balances with other banks, call money, bills and gilt-edged securities. In Great Britain joint stock banks generally keep an amount equal to about 10 per cent of their deposits in the form of cash on hand and balances with the Bank of England. In India the cash holdings of the banks show large seasonal variations but as at 31st December 1937 the percentage of cash and balances with banks to deposits of the Indian scheduled banks was about 13 per cent. Apart from cash, the British banks invest about 5 to 6 per cent of their deposits in call loans, about 15 per cent in bills (including treasury bills) and 30 per cent in gilt-edged securities. The liquid assets of the British banks thus approximate to 60 per cent of the deposit liabilities, the remainder being invested in loans and advances which are usually made for periods not exceeding 6 months. In the absence of well developed call loan and bill markets in India the main classes of liquid assets of joint stock banks in this country are cash, balances with other banks and government or trustee securities. The table below shows the distribution of assets of the Indian scheduled banks and of the British joint stock banks expressed as percentages to deposits.

	Scheduled Banks (excluding Exchange Banks)	British Joint Stock Banks.
	(Percentage to total deposits)	
	31st December 1937.	31st December 1937.
Cash and Balances with Banks	13	10
Call money—	Not shown separately—	5 to 6
Bills	6	15
Investments	~~60~~ 50	~~60~~ 30
Advances	40	40

It must be observed however that in the case of Indian joint stock banks cash in the above table includes balances with banks other than the Reserve Bank whereas in the case of British joint stock banks balances with banks besides the Bank of England are not included.

5. In considering how far the ratios obtaining among the British joint stock banks should be followed by co-operative banks, due regard must be paid to the structure of the co-operative movement and the peculiar features of the Indian money market. In the first place certain types of liquid investments like call money and bills, which are popular with the British banks, form a comparatively small portion of the assets of even the larger commercial banks in India so that the possibility of the co-operative banks acquiring such assets in any considerable quantity is remote. The chief form of liquid assets open to the co-operative banks is, therefore, cash, balances with other banks and investments in gilt-edged securities. Secondly, unlike

the commercial banks the greater portion of the liabilities of the co-operative banks generally comprise fixed deposits so that it is not necessary for the latter to keep as large cash reserves as for the former. However, apart from cash, the need for other liquid investments like gilt-edged securities appears to be greater in the case of the co-operative banks inasmuch as their advances and loans are for longer periods than those of the commercial banks and their income depending as it does on agricultural conditions is more likely to vary widely from year to year. Having regard to all these factors it appears desirable that provincial and central co-operative banks should advance loans up to about 50 to 55 per cent of their deposits and invest the remaining assets in cash and gilt-edged securities. Cash and balances with banks may form about 10 per cent of the deposits. At least 30 to 40 per cent of the deposits should be invested in government securities. The above ratios may be expressed in a tabular form as follows:

	Percentage to deposits.
Cash, cheques in the course of collection and balances with other banks	10
Investments in Govt. securities and treasury bills	30 to 40
Loans and advances	50 to 55

These ratios are explained in more detail below.

6. **Cash.** The proportion of cash to deposits to be maintained by a bank depends upon several factors such as the ratio of its demand deposits to time deposits and the liquidity of the other assets held by it. In England the joint stock banks have found the ratio of 10 per cent sufficient for all practical purposes because of their other liquid assets and also because banking in that country is conducted by larger units. However besides this 10 per cent held in the form of cash and balance at the Bank of England, the British banks maintain about 5 per cent of their deposits in the form of balances with other banks, and cheques in the course of collection. As most of the deposits of the co-operative societies are for fixed term, we have recommended a slightly lower cash ratio for them. At the same time we have recommended a slightly higher ratio for holdings of gilt-edged investments because the advances of co-operative banks are longer dated and more likely to become frozen.

7. Though for the purpose of indicating these ratios broadly we have put cash and balances with other banks together, it is necessary to make it clear that it is not desirable that balances with other banks should be considered as cash. The Indian Companies Act requires banking companies to maintain an actual cash balance of 5% of their demand and 1½% of their time liabilities and in practice banks find it safer to keep an even higher proportion in cash. It is therefore necessary that at least the proportion laid down in the Indian Companies Act should be held in hard cash. In regard to balances with other banks it should be remembered that their liquidity depends upon the liquidity of those banks and great care must therefore be exercised in the selection of such banks.

8. In this connection we would like to refer to our first circular regarding the procedure to be followed for obtaining financial accommodation from us where we stated that co-operative banks admitted to the approved list will have to agree to maintain balances with us equal to 2½ per cent of their demand liabilities and 1% of their time liabilities. This condition has been misinterpreted in some quarters as constituting a departure from the intentions of the framers of the Reserve Bank Act. We would however observe that in asking co-operative banks to maintain balances with us we are only trying to ensure that these banks maintain a sufficient amount of cash in their portfolio such as is being maintained by bankers all over the world. We consider the maintenance of an adequate cash reserve as one of the criteria of soundness. The percentage of cash we are asking for is much less than that which the scheduled banks are required to keep or that which any sound bank should maintain and we believe that this should not cause any hardship to banks which observe the usual percentages of cash against deposit liabilities.

9. **Investments.** We have said above that investments of co-operative banks in gilt-edged securities should form at least 30 to 40 per cent of their total deposits. It may be said however that in most cases mofussil central banks may not be in a position to buy and sell government securities locally. To obviate such difficulties and at the same time to ensure investment in government securities at the best possible rates we suggest that in such cases the provincial co-operative bank in each province should buy and sell government securities on behalf of such central banks and keep them in their custody earmarked for the account of the central banks concerned. The central banks should be required to hold at least 25 per cent of their fixed deposits, 30 per cent of their savings accounts and 35% of their current accounts in the form of government securities and for this purpose to transfer an equivalent amount to the provincial bank which will buy government securities for them. Those central banks which are not in a position to transfer sufficient funds immediately to the provincial bank in respect of their existing liabilities in the manner suggested above should make them gradually and make it a rule in future, that whenever any deposit is received, the necessary amount is transferred to the provincial bank for investment. In this way the provincial bank will act as an investment agency for the affiliated central banks. Such securities should be kept as far as possible unencumbered, but in case of real emergency the central banks might be permitted to borrow on the security of the investments deposited with the provincial bank by means of bills drawn by the former on the latter for temporary periods. The provincial bank will thus have a portfolio of bills during times of seasonal stringency which bills the provincial bank can at all times get rediscounted with the Reserve Bank as the provincial bank can easily certify that all such bills are fully secured by government securities held for and on behalf of the central banks concerned. Such a practice will create a large supply of additional eligible paper which could be rediscounted with the Reserve Bank.

10. **Loans.** We have already said that commercial banks do not generally lend for periods longer than 6 months. We would also like the co-operative banks to follow a similar practice although in their case the normal period of repayment might be nine months. The co-operative

banks should attempt as a general principle to avoid long term busines and where loans for periods longer than nine months are found necessary, care should be taken to ensure that the total amount of such loans does not exceed the paid up capital and reserves. This means that the agriculturist members of co-operative societies will be able to obtain intermediate credit to satisfy their requirements for other than seasonal loans upto the extent of the capital and reserves of their own societies as well as the banks without seriously affecting the liquid position of the latter. At the same time it is necessary to see that the maximum does not in practice become the minimum and that loans intended to be short term do not become long term by being allowed to remain overdue, and prompt measures should be taken to recover overdue debts.

11. In our first circular we suggested that long term loans should be separated from short term. To this suggestion the All-India Provincial Co-operative Banks' Association have replied that in most provinces no attempts have so far been made to examine and separate short term and long term loans of members of societies and that unless this is done no division of short term and long term finance is possible at the apex bank. What we desire is that provincial banks should state clearly how much of their present outstanding loans against central banks is strictly short term and how much has become long term even though it may have been originally short term. We believe that the banks can easily assess this with reference to their actual recoveries in the past. It would also be desirable to indicate short-term and long-term loans separately in the balance sheet.

12. Overdue loans should be shown separately in the balance sheet as provided in the skeleton form recommended by us to the provincial co-operative banks. At present the various provinces follow different methods for the calculation of overdues with the result that the figures from the different provinces are not comparable. In some provinces loans are issued by banks at call but the demands for repayment are fixed at each harvest after taking into account the agricultural conditions prevailing at the time and the balance remaining unpaid out of the demand is shown as overdue. In others, loans are issued for fixed periods and the demands are fixed at the time of issue. Sometimes loans in arrears are extended and such renewals are not shown as overdues. On account of such differences the figures for overdues in all the provinces do not convey the same meaning. We would therefore suggest that all banks should advance loans for fixed periods and fix the demand at the time of issuing such loans and calculate overdues on the basis of such demands. All authorised extensions should be shown separately as such in the balance sheet.

13. It seems necessary here to refer to the practice of fictitious repayments which, more than anything else, has been in the past responsible for concealing the real condition of some of the co-operative banks not only from the outside public but sometimes even from those in authority over the banks. It is not merely that the outstanding loans are renewed and shown as fresh advances, in which case at least the authorities of the bank are aware of the real nature of the transaction, though even in such cases it is desirable that the renewal should be definitely shown as such

and not as a new loan; what happens more often however is that the members of societies secure a temporary advance from a moneylender for the purpose of making repayments to the society or the bank which immediately or after an interval of a few days relends an equal amount which is utilised for discharging the moneylender's debt. We are aware that the officers of the co-operative department and the banks have made several efforts to stop this practice, but we are afraid that it is still prevalent to a much larger extent than is generally realised. The consequences of this practice are obvious; it gives the impression that the bank's loans are liquid when in fact they are definitely frozen and locked up; the bank is shown to be lending every year to the societies for seasonal agricultural requirements while the loans in reality represent the continuation of debts incurred in the past; no real attempt is made by the members to reduce their debts and the co-operative societies in effect carry on the moneylender's traditions of providing a perpetual loan till the member's liabilities exceed his assets, and a deadlock is reached. It is clear that unless this practice is stopped it is not possible to make a correct appraisal of the assets of co-operative banks nor can the banks effectively improve the economic condition of their members. What makes it possible and sometimes even necessary for members to play off one credit agency against the other in this manner is the practice of some co-operative societies of insisting on the liquidation of the entire debt at the end of the season even though it may be beyond the capacity of the members to repay, and to advance immediately afterwards an equal amount irrespective of the periods at which the income should accrue to the members or those at which they need loans for the various agricultural operations. Where this policy is followed it may be safely assumed that the repayments and fresh loans are fictitious in the sense we have explained above and such banks would do well not to be satisfied with the apparent liquidity of their funds but to make enquiries regarding the sources from which the money for repayments comes and the actual purpose for which the so-called fresh advances are utilised. Where it is found that the actual state of things is as we have described above and that the loans represent a continuation of indebtedness it would be best to recognise the fact and allow them to be repaid in instalments, so that there may be some chance of the debt being really liquidated. To avoid the possibility of such fictitious repayments in future it is necessary that the practice of making recoveries in a lump sum at one time and advancing the whole amount soon afterwards should be stopped. Loans should be advanced in instalments as the money is required for each operation. Loans may even be given for consumption purposes so long as they are well within the yearly paying capacity but they should also be given when they are actually required. The times for repayments should be so fixed as to coincide with the periods during which income accrues to the members. It is particularly necessary that where the members have different sources of income at different times of the year, recoveries should be made at those times and not on one fixed date in the year. To ensure that the loans are in reality seasonal it would be desirable to make it a rule that "seasonal" advances for each particular crop must be reduced to nil for a portion of the year during which such credit is obviously not necessary. Such a system will stop fictitious repayments and also ensure that members clear off their liabilities from their income.

14. In this connection we might also mention the necessity of a bank knowing the exact extent of its bad and doubtful debts. Our recent inquiries into the financial practices of co-operative banks have revealed that only a few banks possess full and reliable information on the subject. Where such information is not available, it is desirable that immediate steps should be taken to collect it. Audit is hardly worth the name unless the auditor investigates and points out the amount of bad and doubtful debts. The directors of banks should review these figures and make a provision for all such debts. Generally speaking the bad and doubtful debts under present conditions should be expected to form at least 75% of the debts due from societies under liquidation, 50% of debts due from D class societies and 25% from C class. If the auditor's appraisal shows such debts at a lower figure, it would be risky to accept them without careful and thorough enquiry. Each bank should create a full reserve against bad debts and a 50 per cent reserve against doubtful debts. These reserves should be kept distinct from the general reserve fund. Bad debts which cannot be expected to be recovered even when agricultural conditions improve should be written off from reserves built up for this purpose and where necessary from the general reserve.

15. The All-India Provincial Co-operative Banks' Association have asked us what proportion of overdue, bad and doubtful loans to total loans, we consider as 'safe'. We believe it is undesirable to lay down any particular proportion because these forms of loans are obviously to be guarded against at all times. It might however be said that the total of overdue, bad and doubtful debts should form a very small proportion of the total and a state of affairs where they exceed the reserve fund should be regarded as serious.

16. **Owned capital.** Every bank whether commercial or co-operative requires an adequate capital if it is to win the confidence of its depositors. Adequate capitalisation is secured in the case of commercial banks in various ways *e. g.* by providing for a mininum fixed capital or by prescribing a maximum proportion between capital funds and liabilities. The Indian Companies Amendment Act has prescribed a minimum capital of Rs. 50,000 for banking companies incorporated after the 15th January 1937. As regards co-operative societies it is obviously not possible to prescribe any minimum capital and we therefore recommend that they should observe certain proportions between owned and borrowed funds. The proportion between the paid up capital and reserve to deposits in the case of British joint stock banks is 1 to 16 whereas in the case of Indian scheduled banks it is 1 to 8. We recommend that the deposit liabilities of co-operative banks as suggested by the Maclagan Committee should not ordinarily exceed 8 times the paid up share capital and reserve. We find that the proportion of owned to borrowed funds in most of the provincial co-operative banks is higher than this though this does not hold good for all co-operative banks. The practice of capitalising interest and allocating it to reserve and other funds obtaining in some banks leads to undue inflation of owned funds and makes it difficult to gauge the real position. While recommending the above ratio we presume that overdue interest is not capitalised. At present the various provinces follow different methods with regard to unrealized interest. This item may preferably be split up into the following heads namely (*i*) interest recoverable from D

class societies (*ii*) interest recoverable from societies under liquidation (*iii*) interest recoverable on other bad and doubtful debts and (*iv*) other interest recoverable. The last item may be futher sub-divided into (*a*) interest earned on accounts on which no interest is overdue and (*b*) interest on accounts on which interest is already overdue. None of the above items except item (*iv*) (*a*) should be taken to the profit and loss account and even the appropriation of this item should be deferred until the amount is actually recovered. Interest recoverable under (*i*), (*ii*), (*iii*) and (*iv*) (*b*) may be credited to a suspense interest account until it is recovered. It may here be pointed out that our suggestion regarding the disposal of unrealized interest is generally in keeping with the resolution passed by the last Registrars' Conference on the point, the difference being that we suggest that the interest recoverable from D class societies and on bad and doubtful debts, even if it is not overdue, should not be taken to the profit and loss account.

17. **Reserve Fund.** The provision for a substantial capital or a maximum proportion between capital and deposits by itself is not sufficient to ensure safety to the depositors of a bank. In many foreign countries commercial banks are required by law to build up reserves out of undistributed profits. Under Section 33 of the Co-operative Societies Act, co-operative societies are also required to transfer at least one-fourth of their net profits to the reserve fund. But besides the published reserves joint stock banks as in Great Britain generally have large hidden reserves. The co-operative banks also might emulate their example by writing down gradually the value of their premises and fixtures to a nominal sum and to show their investments at cost or market value whichever is less. The effect of the last depression on the co-operative movement and the manner in which banks with large reserves were able to weather the storm shows clearly that the reserve fund cannot be built up too quickly or reach too high a total. Another reason why co-operative banks should build up large reserves is that owing to the restriction on dividends and voting power, there is little incentive for members of co-operative societies to buy a large number of shares and hence the share capital usually remains low. We are therefore of opinion that all co-operative societies should carry at least 1/3rd of their net profits annually to the reserve fund until it equals the paid up capital, and thereafter at least 1/4th of the net profits. In this connection we would observe that non-scheduled banks are required under the Companies Act to transfer at least 20 per cent of their net profits to the reserve fund till it equals the paid up capital. As regards scheduled banks, although they are under no legal obligation to build up reserve funds, many of them have large reserves which sometimes exceed the paid up capital. The spread between the borrowing and the lending rates of co-operative banks should be sufficiently wide to speed the building up of reserves on the lines indicated above. Moreover the reserve fund should always be constituted out of realised profits and invested outside the movement in any of the modes prescribed by the Co-operative Societies Act. It may be pointed out in this connection that investments in first mortgages of immovable property, even though they fall within this category, are not usually desirable for co-operative banks. There is a danger of the line of demarcation between loans and investments being lost sight of and of loans being made to individuals against immovable property

without proper scrutiny of their paying capacity, under the guise of investments. Such investments have almost invariably turned out to be frozen and in many cases bad and co-operative banks should avoid the risk of locking up or losing their funds in this manner.

18. In our previous circular letter we stated that in rediscounting paper of A and B class central banks through the provincial banks we would take into consideration the rates of dividend paid. Although the maximum rates of dividend are generally fixed by local Acts or bye-laws of the banks concerned the Reserve Bank will have to take into account whether a part of the net profits in the manner indicated above has been transferred to the reserve fund before such dividends are declared and whether the dividends are declared out of profits actually realized.

19. Many other banking principles and practices may be introduced with a view to organise the co-operative movement on banking lines. At the present time the rates of interest prevalent in the co-operative movement are in a chaotic state with the result that some banks have unknowingly been living on their capital. The loan and deposit rates of the central banks should be linked with the loan and deposit rates of the provincial bank which in turn should be linked with the Bank Rate so that there may be an organic structure of rates throughout the co-operative movement. A co-operative bank should not as a rule accept deposits for periods longer than a year or two at the most, as long term deposits make it difficult for a bank to adjust its interest rates in accordance with the fluctuations in the money market and are a source of great embarrassment in times of falling rates. Rates of interest paid on deposits should not be higher than the Bank Rate. Although it may not be possible to achieve the latter object all at once it should be possible by stages to reduce the high rates obtaining at present. Current accounts may be introduced where they do not exist, in order to bring down the cost of obtaining deposits but this should be done only if the principles mentioned earlier in this letter are observed.

20. Finally as we pointed out in para 25 of the Statutory Report 'sound banking is the result not so much of banking rules as of good bankers', it is therefore essential that the central co-operative banks should employ an efficient and well paid staff trained in the theory and practice of banking. The provincial co-operative banks should exercise a close watch over the working of the central co-operative banks to ensure that the latter follow the lines laid down in this circular. For this purpose the co-operative banks should submit periodical statements, say once a fortnight, to the provincial co-operative bank in a prescribed form.

21. As stated at the outset this circular has been written with a view to explaining in what manner co-operative banks may conform to banking principles and practices. It does not therefore refer to the important question of the relations between the banks and primary societies. It should not however be assumed that because we have laid so much emphasis on the necessity of observing sound banking canons we are unmindful of the banks' duties towards the primary societies. On the contrary, as we have explained in our bulletins, we consider

3

that co-operative banks exist in order to be of service to the primary co-operative societies and that their success will depend upon their usefulness in this respect. Their relations with the societies should not be merely those of a financier but of a friendly counsellor and they should look after all the needs of the societies to a much greater degree than is usually done at present.

22. There are many other points on which the co-operative banks may need guidance, but we do not wish to make this circular too long. We shall however be very glad to give advice on any point relating to co-operation or banking referred to us by co-operative banks.

Yours faithfully,

MANILAL B. NANAVATI

Deputy Governor.

Copy forwarded with compliments to

The Secretary,
Revenue Department
Govt. of Mysore,
~~Mysore~~ Bangalore.

for information.

Sher Jung Bahadur

For Officer-in-Charge

Agenda for the Co-operative Conference, December, 1939.

Suggested by.

I.—FINANCE.

(*i*) (1) How far is it practicable and desirable for provincial and central co-operative banks to follow the banking principles indicated in Circular No. A. C. D. 528/77-39, dated the 12th June, 1939, of the Agricultural Credit Department of the Reserve Bank of India, particularly in regard to— Reserve Bank.

(*a*) Distribution of assets.

(*b*) Period of loans.

(*c*) Classification of loans.

(*d*) Treatment of overdue interest.

(*e*) Maintenance of Reserve Funds.

(*f*) Regulation of interest on deposits.

(2) What are the other commercial banking practices which co-operative banks may follow with advantage ? U. P.

(*ii*) Organisation of banking unions of the type recommended by the Agricultural Credit Department, Reserve Bank of India, in Bulletin No. 1 and combination of supervision and finance. Reserve Bank.

(*iii*) Advances of loans in the form of seed, fertilisers and implements. U. P.

(*iv*) Guidance, supervision and control over the financial policy of Central Banks by Provincial Banks. Reserve Bank.

(*v*) Standards for the classification of financing institutions. U. P.

(*vi*) Whether any safeguards are necessary to secure that the urban co-operative banks do not become competitors of the joint stock banks ? Sind.

(*vii*) Amendment of the Reserve Bank of India Act to permit business with provincial banks against co-operative paper of urban banks. Bombay.

(*viii*) The part that the Reserve Bank should play in the agricultural credit of the country. Sind.

II.—REHABILITATION OF BANKS AND SOCIETIES WHICH HAVE GOT INTO DIFFICULTIES. Reserve Bank.

(*a*) Have large scale coercive measures and liquidation of societies with heavy overdues led to substantial and permanent improvement of the situation ? Are they desirable ? Sind.

(*b*) Have reductions in interest, grant of rebates and recovery of dues in such sum as members are able to repay, been effective in improving the position ?

(*c*) Should debts of members be scaled down to their repaying capacity ?

(*d*) Should surrenders of land be taken from members and instalments on hire purchase system fixed where there are heavy overdues ?

(*e*) Should lands acquired by societies and banks be disposed of to original owners or other cultivators under the above system ? In what other ways can lands and other immovable property so acquired be disposed of ? Madras.

(*f*) What should be the maximum number of instalments and the rate of interest ? Madras.

(*g*) How should long term finance be raised for the purpose ? Madras.

(*h*) If there is a shortfall owing to the settlement of debts of members or other reasons, how should it be met ? If it is to be borne by depositors of banks, should there be a provision whereby when a majority of creditors agree to a reduction in their claim, the rest can be compelled to agree ? What effect will such reduction have on the ability of co-operative banks to attract deposits ? Madras.

(*i*) How should fresh crop finance be provided for ?

(*j*) Should the instalments be made repayable in kind ?

Suggested by.

III.—PRIMARY SOCIETIES.

(*i*) Organisation of new societies as multipurpose societies and reconstruction of the old ones, on the lines recommended by the Reserve Bank of India, to undertake, in addition to credit, marketing, supply of seed, implements and manure, better farming and better living activities. — Reserve Bank.

(*ii*) Area of operation of such societies. — Reserve Bank.

(*iii*) Liability of such societies—

(*a*) How far is unlimited liability sound in practice for the success of co-operative credit, rural or multipurpose societies and development of local leadership? Is it desirable to have limited liability in village societies and, if so, whether the limit should be determined by shares or by guarantee? — Bombay, Madras.

(*b*) Should not multipurpose societies be based on limited liability so far as marketing and better living societies are concerned and on unlimited liability with regard to advances of loans in cash or kind to members? — U. P.

(*iv*) Purposes and duration of loans—

(*a*) Whether an absolute ban on unproductive loans is unsound in view of the fact that such a ban leads to borrowing from money-lenders?. — Sind.

(*b*) Whether stricter rules for financing members are necessary to ensure that loans are given with reference to the repaying capacity as measured in terms of the land revenue. — Sind.

(*c*) Whether societies should advance loans in emergencies like crop failures and if not how such finance should be provided? — Reserve Bank.

(*v*) What is the remedy for the mis-application of loans by members of co-operative societies? Can the evil be checked by making the offence punishable with a fine prescribed for the purpose? — Madras.

(*vi*) Is it desirable to prohibit persons from holding the office of the President, Secretary or Director of a Society for a period exceeding a certain number of years? — Madras.

(*vii*) Compulsory extension of membership—

(*a*) With a view to extend the benefit of co-operative credit and sale to a very much larger number of agriculturists than is the case at present, how far is it desirable to relax the principle of voluntary and select membership in the case of agricultural credit and multipurpose societies? — Bombay.

(*b*) Compulsory membership of co-operative societies as part of the scheme for liquidation of indebtedness of agriculturists. — U. P.

(*viii*) (*a*) Development of secondary industries on co-operative lines. — Bombay.

(*b*) To what extent and in what form can co-operative societies help the member in diversification of farming? — U. P.

(*ix*) There are some cases where societies registered under the All-India Act of 1904 or 1912 and now deemed to be registered under Provincial Acts, have jurisdiction beyond the Province to which the Provincial Act applies. It has been suggested that this position is irregular and that if it is to be allowed to continue Central Legislation by the Government of India is necessary. How far is this necessary and in what manner can legislation be made? (E. H. and L. Department circular No. F. 44-13/39-A., dated the 24th August, 1939). — Madras.

(*x*) Under section 43 of the Madras Co-operative Societies Act, if the Committee of any registered society is not functioning properly, the Registrar may dissolve the Committee and appoint a suitable person or persons to manage the affairs of the society for a specific period. In cases where the bad condition of the societies is due to one or more individuals in the Committee, is it not desirable to provide for their removal instead of superseding the entire committee? — Madras.

IV.—LAND MORTGAGE BANKS.

(*i*) What should be the area of operations of a Primary Land Mortgage Bank? — Bombay.

(*ii*) Are Primary Land Mortgage Banks necessary? — Reserve Bank.

(*iii*) Scope for loans for improvement of land and agriculture and how to extend it. — Reserve Bank.

(*iv*) Co-ordination between primary societies and land mortgage banks. — Reserve Bank.

	Suggested by.
(*v*) Co-ordination between land mortgage banks and debt conciliation boards.	Madras.
(*vi*) Powers to be given to land mortgage banks to call creditors and inspect their accounts.	Reserve Bank.
(*vii*) How to make debentures of land mortgage banks marketable and popular security—	
(*a*) Stipulations regarding redemption.	Reserve Bank.
(*b*) Formation of a Sinking Fund.	Bombay.
(*c*) What assistance can Reserve Bank give in this matter by—	Madras.
(*i*) Purchasing debentures,	
(*ii*) floating debentures on their behalf, and	
(*iii*) any other method.	
(*viii*) Is it necessary for land mortgage banks to grant loans to members repayable in 30 or more instalments ?	Madras.
(*ix*) Are any other modifications required in the working of land mortgage banks ?	Sind.

V.—DEBT LEGISLATION AND THE CO-OPERATIVE MOVEMENT.

(*i*) How far is the co-operative movement affected by the debt and tenancy legislation in different provinces, and should co-operative societies enjoy special privileges ?	Sind.
(*ii*) Is it necessary and desirable to provide in any scheme of reduction of agricultural debts that the debtor should not be deprived of such minimum extent of agricultural holdings as may be considered necessary for the maintenance of himself and his family ?	Madras.
(*iii*) Has the working of the employees' societies suffered in any way by the recent amendment to section 60 of the Code of Civil Procedure raising the non-attachable limit to Rs. 100 ? Is it necessary to safeguard the interest of the societies by any special legislation ?	Madras.

VI.—CO-OPERATIVE EDUCATION.

(*i*) The Bank's staff to take up the examination of Institute of Bankers.	Reserve Bank.
(*ii*) Steps to be taken for the education of the members of the co-operative societies and the public in general in regard to the principles and practices of co-operation and the future possibilities of the movement.	Reserve Bank.
(*iii*) Extension of primary education in villages to bring about substantial progress in co-operation.	Sind.

VII.—GENERAL.

(*i*) Strengthening the staff of Co-operative Departments.	Reserve Bank.
(*ii*) Scope for the formation of cattle and crop insurance societies.	Madras.
(*iii*) Possibility of organising health co-operative societies.	Reserve Bank.
(*iv*) What is the best arrangement under which title of lands can be conveyed to members of consolidation of holdings' societies after the scattered holdings have been redistributed without involving much cost to members ?	Madras.
(*v*) Should the law of limitation be made applicable to co-operative societies.	Sind.
(*vi*) Steps to be taken to foster the co-operative stores, where possible, by employing educated men who have received proper training in salesmanship.	Bombay, Madras, and Sapru Report.
(*vii*) Consideration of the report of the Agricultural Credit Department of the Reserve Bank of India on the working of English Agricultural Credit Act in regard to agricultural charges as desired by the last conference.	Government of India.
(*viii*) Special measures which co-operative societies may have to take in view of the war.	Reserve Bank.

Notes on the Agenda for the Conference of Registrars of Co-operative Societies to be held in December 1939 at Delhi.

I. FINANCE.

RESERVE BANK.

(*i*) (1) *How far is it practicable and desirable for provincial and central co-operative banks to follow the banking principles indicated in Circular No. A. C. D. 528/77-39, dated the 12th June, 1939, of the Agricultural Credit Department of the Reserve Bank of India, particularly in regard to*—

(*a*) *Distribution of assets.*

(*b*) *Period of Loans.*

(*c*) *Classification of loans.*

(*d*) *Treatment of overdue interest.*

(*e*) *Maintenance of Reserve Funds.*

(*f*) *Regulation of interest on deposits.*

U. P.

(2) *What are the other commercial banking practices which co-operative banks may follow with advantage ?*

(*i*) (1) *Note from Reserve Bank.*—It is sometimes argued that as co-operative banks have to advance loans for longer periods than commercial banks and as the spread between their borrowing and lending rate has to be narrow, they cannot afford to observe the commercial banking practices. On the other hand it may be said that since the co-operative banks have to get their funds from deposits, they must take steps to ensure the safety and liquidity of these funds. Failure to do so may not only bring the banks into difficulties but may even make it difficult for co-operative societies to obtain future finance. That deposits are usually renewed is not a valid argument for dispensing with these precautions because that happens in the case of even commercial banks. The experience of co-operative banks in some parts of India shows that their advances show a greater tendency to get frozen and therefore it is all the more necessary for them to adopt measures to ensure the safety of the deposits The Reserve Bank Circular sets out the practices followed by joint stock banks in order to safeguard their position and it seems advisable that co-operative banks should study these practices and see how far they could adopt them.

(*a*) *Distribution of Assets.*

A study of the balance sheets of British Joint Stock Banks, and Indian scheduled Banks (other than exchange banks) shows that the distribution of assets in their case is as follows :—

	Scheduled Banks (excluding exchange banks).	British Joint Stock Banks.
	(Percentage to total deposits.)	
	31st December 1937.	31st December 1937.
Cash and balances with banks . . .	13	10
Call money	Not shown separately.	5 to 6
Bills	6	15
Investments	50	30
Advances	40	40

On this analogy the following distribution has been suggested for co-operative banks :—

	Percentage to deposits.
Cash, cheques in the course of collection and balances with other banks	10
Investments in Government securities and treasury bills . .	30 to 40
Loans and advances	50 to 55

The necessity of following these proportions arises from considerations of safety. However soundly a bank may be conducted there may be a run on it on account of outside causes. Though no bank can ever repay all its liabilities immediately if there is a run, it must conduct its business in such a way that it can make arrangements for meeting all demands within a reasonable time. It must in the first place have certain amount of ready cash to meet daily disbursements and any minor excess of withdrawals over deposits. As a second line of defence it must have some liquid investments against which it can borrow easily in order to meet any emergency. It can lend out only as much of the borrowed capital as is left after making these provisions. This principle has been accepted to some extent by co-operative banks since standards of fluid resource have already been laid down. These standards however differ in different provinces. They also do not bring out so clearly the proportions to be maintained between the various kinds of assets. It might therefore be better for co-operative banks to adopt the proportions suggested by the Reserve Bank. It is argued that if co-operative banks follow this distribution they would not be able to make sufficient profits to pay their way. An examination of the balance sheets of Provincial Banks however shows that most of them actually follow this distribution and are yet able to make profits. The balance sheets of central co-operative banks as a whole also conform to this pattern in most provinces. Where hypothetical calculations do not show sufficient profit they fail to take into account the yield on the owned funds of the Bank and the varying rates of interest which the Bank pays on its deposits. Where the bank takes current accounts at a nominal rate of interest, its actual expense on account of interest is much less than that paid on fixed deposits. Central banks which do not take current deposits and do not possess adequate reserves may have to keep a higher margin between their borrowing and lending rates. When current accounts are absent it may also not be unsafe to vary the ratios slightly by increasing the loans ratio a little. Lastly the ratios prescribed by the Reserve Bank are the normal ones that is to say they do not prevent the banks from granting larger loans in times of stringency by borrowing against their Government Securities so long as the normal distribution is kept in mind and adhered to during the greater part of the year.

(*b*) *Period of Loans.*

The second important banking practice is that loans should be short term and self liquidating. Therefore the Reserve Bank recommends that loans should not generally exceed nine months, that the amount of the loan and the date of its repayment should be fixed to coincide with the income the borrower is expected to make and the date on which it will accrue to him and that loans for a longer period should be confined to the owned funds of the societies and banks. The objections raised against these principles are that the Banks will not be able to meet all the needs of the cultivators, that some crops like cane take longer than nine months and that owing to uncertainties of the crop it is no use granting the loan for a fixed period. It is for consideration however whether it is not sounder for the banks to be content with making only such advances as they can give with safety rather than endanger their existence by trying to attempt too much, and whether with their owned funds they would not be in a position to satisfy all the urgent needs of the members. Where the crop takes longer to mature the loan will have obviously to be for that period. The advantage in granting the loan for a fixed period is that in the first place the amount of the loan itself will be fixed with reference to the average income of the borrower and secondly if extension has to be given the amount overdue will be clear.

(*c*) *Classification of Loans.*

The third principle is that a bank should be fully aware of the quality of its loans. The Reserve Bank therefore suggests in the first place classification of loans into short term and long term, not merely according to the period for which they are granted but the actual period for which they are held.

Secondly it recommends that overdue and extended loans should be shown separately and fictitious repayments should be guarded against. Thirdly it wants that bad and doubtful debts should be carefully assessed. Where careful and thorough enquiries have not been made it suggests certain mechanical standards for their assessment.

(*d*) *Treatment of overdue interest.*

The fourth principle is that the Banks should not incur expenditure out of their capital. The main danger of this arises from the practice of taking unrealised interest towards profit and appropriating it. To avoid this the Reserve Bank suggests that all unrealised interest should be shown under the following heads :

(*i*) Interest recoverable from D class societies (and also E class societies when this class exists).

(*ii*) Interest recoverable from societies under liquidation.

(*iii*) Interest recoverable on other bad and doubful debts.

(*iv*) Other interest recoverable—

(*a*) Interest earned on accounts on which no interest is overdue.

(*b*) Interest on accounts on which interest is already overdue.

Only item No. (*iv*) (*a*) should be taken to the profit and loss account and even the appropriation of this item should be postponed until it has been recovered. All other interest recoverable should be credited to a Suspense Interest A/c until it is recovered. These recommendations are on the lines of the resolution adopted at the last Registrars' Conference regarding unrealised interest, except that interest recoverable from D class societies and on bad and doubtful debts, even if it is not overdue, is to be excluded from profit and loss account.

(*e*) *Maintenance of Reserve Funds.*

The fifth principle is the maintenance of adequate reserves. The suggestions in this connection are—

(*i*) At least 1/3rd of the net profit should be carried annually to the Reserve Fund until it equals the paid up capital and thereafter at least 1/4th.

(*ii*) The spread between borrowing and lending rate should be sufficiently wide to speed up the building up of reserves.

(*iii*) The Reserve Fund should be constituted out of realised profits.

(*iv*) It should be invested outside the movement in unencumbered trustee securities except mortgages of immovable property.

(*f*) *Regulation of interest on deposits.*

The last principle is that Banks should obtain their money as cheaply as possible. For this purpose the Reserve Bank suggests that the banks should take where possible current deposits, that they should not take deposits for longer than a year or two and that the interest paid on deposits should not be higher than the Bank Rate. If the co-operative banks are going to adopt banking practices there is no objection to their taking current deposits and this will cheapen the cost to them. Similarly they will not be committing themselves to unnecessarily high rates if they do not take deposits for long terms.

(2) *Note from U. P.*—In view of the development of business that has taken place and is likely to take place on a much greater scale in the near future, it is necessary that the following practices of joint stock companies be followed by co-operative concerns :—

(*i*) It should be obligatory on a central co-operative bank to send a copy of the balance sheet together with the profit and loss account to every member a fortnight ahead of the general meeting.

(*ii*) In our Provinces, central banks are for the most part audited by departmental auditors. Under departmental instructions, they have to submit a confidential report to the Registrar in case they have to criticise the administration for acts of omission or commission. In the interests of the bank it is equally necessary that a copy thereof should be sent to each individual director of the bank and where necessary auditor's presence may be secured in the general meeting.

(*iii*) Then again a statement in form G prescribed under Section 136 of the Indian Companies Act should be exhibited six monthly at some conspicuous place of the bank to show its financial position to the public.

(*iv*) As the practice goes the directors consider the balance sheet together with the profit and loss account and recommend their proposals for the distribution of profits, if any, to the general meeting. In order to emphasise the responsibility of directors, this should be replaced by the submission of a report on the lines laid down under section 131-A of the Indian Companies Act. This report should be signed by all directors present in the meeting.

(*v*) With regard to book debits, it should be clearly shown which are fully secured and those for which the bank holds no security other than the debtor's personal security. With regard to the latter, further division should be made showing which are good and which are doubtful or bad. Amounts invested in immovable property or in shares of other co-operative banks or other concerns should also be separately shown.

(*vi*) The balance sheet should also show bills to be collected or received.

(*vii*) Dues from liquidated societies in principal and interest should be shown separately. Collections from societies in liquidation should likewise be shown separately in principal and interest.

RESERVE BANK.

1. (*ii*) *Organisation of banking unions of the type recommended by the Agricultural Credit Department of the Reserve Bank, in Bulletin No. I and combination of supervision and finance.*

Note from Reserve Bank.—To assist primary societies of the multipurpose type the Reserve Bank recommends the organisation of Banking Unions, the essential features of which are :—(1) It is limited in area—being confined to a radius of five to ten miles—so that it is in close touch with the societies. (2) Its membership is confined to primary societes. (3) It finances the societies, supervises, assists and guides them in all their activities like marketing, supply etc. The Reserve Bank's suggestion is that multipurpose societies cannot be a success unless there is such an agency to help them. It is doubtful if separate supervising agencies have been successful and it is urged that they lack a sense of responsibility. A bank for agriculturists must not be content with merely supplying credit but must take active part in formulating and carrying out a policy which will give the agriculturists more income.

U. P.

I. (*iii*) *Advancing of loans in the form of seed, fertilisers and implements.*

Note from U. P.—In foreign countries big societies have been organised for advancing loans in seed, fertilisers and implements. The advantage is obvious. Once that is done, the question of misuse of loan disappears altogether. Bulk purchases will also reduce prices to the advantage of members. Time has come to organise such societies at convenient centres embracing 10 to 15 villages within the area of their operations.

Note from Reserve Bank.—There are several advantages in granting loans in kind in the form of seed, fertilisers and implements rather than in cash :—

(1) It minimises the danger of misapplication of loan.

(2) It ensures the supply of good and reliable stuff. Improved variety of seed can be supplied and uniformity in the variety of crop grown ensured.

(3) Co-operative supply also ensures full weight.

(4) Bulk supply may also result in saving in price.

Though these advantages are understood, the principle has not been put into practice to any great extent owing to the lack of organisation. It is therefore suggested that either big supply societies should be organised or the Banking Unions should arrange for the supply on indent system. The primary society when sanctioning the loan should give the order to the banking union which should supply the articles and debit the society with the price.

RESERVE BANK.

I. (*iv*) *Guidance, supervision and control over the financial policy of Central Banks by Provincial Banks.*

Note from Reserve Bank.—At present the Provincial Bank generally functions only as the financing agency for the central banks. There are several directions in which it can make itself more useful to them and serve more truly as the apex bank of the movement. The small co-operative banks are not in touch with the money market nor are they conversant with banking principles and practices and need constant guidance in their financial policy. The apex bank of the province is best fitted to give them this guidance. It is therefore suggested that it should be in closer contact with them and its advice should be availed of to a greater extent than is done at present. As the Central Banks are members of the Provincial Banks, there will be nothing wrong in their agreeing to certain amount of control by the provincial bank. The following measures are suggested in this connection :—

(*i*) All co-operative banks should send a weekly statement of their financial position to the provincial bank.

(*ii*) As suggested in paragraph 9 of the circular issued by the Reserve Bank of India, the provincial bank may act as an investment agency for the affiliated central banks. These central banks which want to invest their funds in securities direct should do so in consultation with the provincial banks.

(*iii*) The provincial banks may issue fortnightly a note showing the yield of various government securities for the information and guidance of central banks.

(*iv*) Interlending among the central banks without the sanction of the provincial banks should be stopped wherever it exists.

(*v*) The rate of interest in the co-operative banks on deposits should be linked up with rates of deposit in the provincial banks which in turn should follow the Bank Rate. Any divergence by a bank from the policy laid down by the Provincial Bank in regard to deposit rates should immediately be brought to the notice of the latter.

(*vi*) The Provincial Bank should have a right to inspect central banks and to bring to the notice of the Registrar any serious defects in their working.

(*vii*) The Provincial Bank may provide facilities for the training of the staff of the co-operative banks and encourage them to take up the examination of the Indian Institute of Bankers.

U. P.

I. (*v*) *Standards for the classification of Central Co-operative Banks.*

Note from U. P.—It has become necessary to divide central banks into two classes A and B in view of the circular issued by the Agricultural Credit Department of the Reserve Bank :—

(*i*) A class bank shall be one which satisfies any of the following conditions :—

(*a*) Bank whose reserve fund is all invested in fluid securities and by itself or together with other separate funds amounts to 30 per cent. or more of the working capital.

(*b*) Bank whose reserve fund is all invested in fluid securities and the total of the reserve and other funds and sharecapital is 45 per cent. or more of the working capital.

(*c*) Bank whose owned capital exceeds its outside liabilities or where the owned capital of the constituent societies is 50 per cent. or over of their working capital in at least half of the total number affiliated to the bank.

(*d*) Bank whose rate of interest payable on deposits to depositors does not exceed more than one per cent. the rate payable by first class joint stock banks and which regularly distributes dividends at a rate not below 6 per cent.

(*ii*) B class bank shall be one where the percentage is reduced to 20 in (*i*) (*a*) to 35 in (*i*) (*b*) and 40 in (*i*) (*c*).

Note from Reserve Bank.—1. In most of the provinces the co-operative societies and banks are not being classified according to their financial position and in a few the standards laid down by the 9th Conference of the Registrars for primary societies are being followed. Classification of central banks is as necessary as of primary societies in order to get an idea of their financial position at a glance. It is also necessary for the purpose of discount with the Reserve Bank. The standards to be applied to a bank must however necessarily differ from those considered suitable for primary societies.

2. The classification suggested by U. P. is somewhat confusing and it is at any rate necessary to make the classification on a much wider basis. In the first place the U. P. scheme does not provide for banks whose assets are frozen or a large part of whose loans are bad and doubtful. It would appear necessary to group such banks in a separate class which for convenience may be designated as class D. Moreover there may be certain banks whose position may not be so unsatisfactory as class D banks but which at the same time are not entitled to be placed in class B. Such banks may be grouped in class C and when their position improves further, they may be promoted to class B. Secondly the U. P. scheme does not take into account some of the important factors such as the proportion of liquid assets to the total, proportion of overdue loans, of bad and doubtful debts, etc. It is doubtful if the maintenance of the reserve fund at 30 per cent. of the working capital would by itself be a sufficient criterion for placing a bank in class A. Besides, it would be difficult for banks to maintain their sharecapital, reserve and other funds at 45 per cent. of the working capital, unless reserves are meant to imply fluid resources. It is therefore necessary to have a wider and more elastic basis for classification than the one suggested by U. P. Although it is not possible to prescribe any hard and fast criteria for judging the financial position of a banking institution some general standards may be laid down. Classification obviously involves the consideration of various factors shown in the balance sheet as also the quality of loans and advances which cannot be judged from the balance sheets. Confining ourselves to the position revealed by the balance sheets, the following standards for classification may be considered.

3. In order to be placed in class A a central bank should generally satisfy the following conditions :—

(*i*) It is neither over capitalised nor under capitalised, *i.e.*, the ratio of paid-up capital and reserves to deposits is between 8 and 12 per cent.

(*ii*) It is building up reserves as suggested in paragraph 17 of the Reserve Bank's 2nd circular to co-operative banks. The whole of the Reserve Fund is invested in Government and other Trustee Securities which should not in any way be encumbered.

(*iii*) The assets are generally distributed as recommended by the Reserve Bank, *i.e.*, as follows :—

Cash and balances with banks . .	10 per cent. of deposits.
Investments in Govt. Securities . .	30 to 40 per cent.
Loans and advances	50 to 55 per cent.

The liquid or fluid position of the bank is satisfactory, *i.e.*, the bank has cash and other fluid resources amounting to about 40 to 50 per cent. of the deposits.

(*iv*) Bad and doubtful debts do not exceed 5 per cent. of total loans and a full reserve is created against them. This reserve fund should be maintained separately in addition to the general reserve fund.

(*v*) There should be no fictitious recoveries and overdue loans should not form more than 5 per cent. of total loans.

(*vi*) The bank is working at a profit and is paying reasonable dividends to the shareholders. It is treating overdue interest as suggested in the Reserve Bank's circular.

(*vii*) The bank does not pay unduly high rates on deposits. The rates should not ordinarily be higher than the bank rate.

(*viii*) The management of the bank is efficient. The staff should be well qualified and the officers should have at least passed the Institute of Bankers Examination.

(*ix*) The bank is able to finance all the legitimate needs of the affiliated societies.

4. Banks which do not satisfy all the above conditions but whose financial position is nevertheless satisfactory may be placed in B class. As regards bad and doubtful debts, B class banks may be permitted to have such debts upto 10 per cent. of the total loans provided they have been fully provided for. Similarly the percentage of overdue loans may be a little higher but should not exceed 10 per cent. of the total loans.

5. In D class will be placed banks whose financial position is considered thoroughly unsatisfactory. The following are some of the considerations which may require a bank to be placed in D class :—

(*i*) It is in liquidation.

(*ii*) It is working at a loss from year to year and shows large capitalised expenses.

(*iii*) Its bad and doubtful loans amount to 75 per cent. or more of the total loans.

(*iv*) More than 90 per cent. of its assets are frozen.

6. Banks whose position is slightly better than D class banks but who are not entitled to be placed in B class may be grouped under class C.

7. In classifying co-operative banks it is also necessary to consider how far these banks are endeavouring to follow co-operative principles and further the cause of co-operation in general. A central bank may satisfy all the criterions laid down for class A banks and yet be more of an investment trust than a true co-operative bank. Another bank may not satisfy all the criteria and yet may have rendered useful service to the movement in several ways. While therefore it is necessary that for the purpose of assessing their financial soundness banks should be classified as above, it is also necessary that the question how far they work co-operatively should be examined and that the classification should also give an indication of this. The conference might consider what criteria should be applied for the purpose. It would be desirable to employ a separate set of symbols to indicate the co-operative character in addition to the symbols used for showing financial soundness.

SIND.

I. (*vi*)—*Whether any safeguards are necessary to secure that the urban banks do not become competitors of the joint stock banks.*

Note from Sind.—It is apprehended that some urban co-operative banks are " co-operative " only in name and enjoying, as they do, certain privileges compete unfairly with the joint stock banks.

BOMBAY.

I. (*vii*)—*Amendment of the Reserve Bank of India Act to permit business with provincial banks against co-operative paper of urban banks.*

Note from Bombay.—The grant of credit facilities to provincial co-operative banks by the Reserve Bank of India is governed by the provisions of Section 17 (2) and (4) of the Reserve Bank of India Act. The scope of these facilities appears, however, to be limited as the paper which is eligible for acceptance by the Reserve Bank is almost exclusively agricultural. An amendment of the Reserve Bank of India Act is, therefore, indicated so as to permit business with provincial banks against co-operative paper of urban banks.

The point has been discussed by the Reserve Bank of India in its Statutory Report as will be seen from the extract from paragraph 39 of the Report reproduced below :—

> " It has also been suggested that Section 17 (2) (*a*) should be amended to include the provincial co-operative banks, in order that urban banks dealing with small artisans and traders may be able to approach the Reserve Bank through them. Such business has not yet developed to any great extent except in the Bombay Presidency where the Provincial Co-operative Bank is in a position to satisfy all the demands. There does not seem, therefore, any urgency about this at present."

It will be noticed that the Reserve Bank has by implication admitted the necessity of amending the Act, but has not considered the question as urgent on the ground that the Bombay Provincial Co-operative Bank is able to meet the demands for credit made on it. It is true that there is at present a plethora of funds with the Bombay Provincial Co-operative Bank, but that in itself is not sufficient justification for deferring the consideration of a question of finance, which may arise in the near future. In view of the policy of extensive crop finance which is proposed to be pursued as a result of the proposed scheme of debt adjustment legislation, the funds of the provincial bank may not be found adequate for both rural and urban finance, with the result that the urban side of the movement may receive a set-back if sufficient funds are not forthcoming to facilitate the operations of urban banks.

If the necessity for amending the Act, with a view to extend facilities of credit to urban banks is recognised, the next question for consideration would be as regards the nature of the paper of urban banks, which should be made eligible for acceptance by the Reserve Bank. This is important as the Reserve Bank would not accept paper which is not of a self-liquidating nature. The paper of urban banks which has been drawn for financing small artisans and traders against industrial goods, gold and silver, or agricultural produce would satisfy the requirement of the Reserve Bank of India that its finance should be of a self-liquidating nature. It may also be pointed out that so far as the Bombay Province is concerned, there should be no hesitation in granting these facilities to urban banks as in view of the recent orders of Government, no society is classed as a bank unless it has a share capital of Rs. 20,000 and does the business of banking as defined in Section 277 (*f*) of the Indian Companies Act. Enactment of a Rule under the Bombay Co-operative Societies Act prohibiting co-operative societies not fulfilling the conditions from using the word " bank " in its name is separately under consideration. Moreover, as a further safeguard, the Reserve Bank can also restrict finance to co-operative papers of urban banks in ' A ' and ' B ' class.

It may also be observed that though urban banking may not have developed in other Provinces as it has in the Province of Bombay, the fact that short-term fund can be raised by Provincial Banks on the security of the paper of urban banks will itself serve as a stimulus to co-operative urban banking.

SIND.

I.—(*viii*) *What part should Reserve Bank of India play in the agricultural credit of the country.*

Note from Sind.—The Reserve Bank has recently submitted a Statutory Report to the Government of India and has also published a number of bulletins outlining its views. The conference should discuss the Statutory Report and give its opinion.

Note from Reserve Bank.—The recommendations relating to co-operative credit have been mostly included in the agenda and will be discussed under those heads. Here it would be more appropriate to consider the assistance which the Reserve Bank can give in regard to agricultural credit. The Reserve Bank has stated its position in this connection as follows :—

(1) It is the Bankers' Bank in emergency and not their ordinary financing agency. It cannot therefore lend to agriculturists direct or act as the apex bank of co-operative banks supplying them normal finance. It will however give financial accommodation in emergency as provided for in the Act.

(2) It will give advice to Co-operative Banks to organise their business on sound lines.

(3) It will study the problem of agricultural credit and the working of the co-operative movement and suggest lines for development.

(4) It will serve as a clearing house for information relating to agricultural credit and put its best advice at the disposal of Governments and Co-operative Banks whenever asked to do so.

II.—REHABILITATION OF BANKS AND SOCIETIES WHICH HAVE GOT INTO DIFFICULTIES.

Note from Sind.—The figures as for 30th June 1936 given on page 411 of the Times of India Year Book 1938 show that for the Provinces and States of India, the overdues (excluding extensions) form 44 per cent. of the loans due and 34 per cent. of the working Capital. The position has been deteriorating since 1929 on account of the fall in prices of agricultural produce and the main problem is the reorganisation of the Credit movement.

Note from U. P. —The large number of D and E class societies in every province is a disquieting feature of the movement. Left to themselves, such societies will sooner or later go into liquidation and bring the movement into disrepute. Liquidation was at one time favoured because this enabled the assets to be realised as arrears of land revenue. In a number of provinces, awards obtained against members can now be executed through the Collector as arrears of land revenue so that that advantage in liquidation disappears. It is common knowledge that in a number of cases, the arrears are beyond the repaying capacity of the defaulters and a good part of the assets will have to be written off. If that is so, why not write off the irrecoverable amount earlier and give the societies a fresh chance ? The manner in which societies have been reorganised in Burma have been set out in detail by the Agricultural Credit Department of the Reserve Bank of India. The principal steps have been summarised on page 27 of the bulletin and need not be repeated. It goes without saying that the Burma scheme cannot be applied in its entirety and will have to be modified in the light of local conditions. The question, however, is of outstanding importance to deserve careful consideration at the Conference.

Note from the Reserve Bank.—(*a*) Rehabilitation of banks and societies in which there is a heavy accumulation of overdues does not seem to be possible by large scale coercive measures or wholesale liquidation. Though prompt coercive action for recoveries is essential in individual cases of wilful defaults, such action when arrears have been allowed to accumulate over a number of years or are due to natural calamities, instead of bringing back the co-operative movement to health, paves the way for its destruction by creating ill-will and desperation. It is not even effective in bringing recoveries.

(*b*) Reduction in interest, grant of rebates and recovering as much as members are able to repay every year, though they afford considerable relief to the members, are palliatives and do not lead to substantial improvement of the situation.

(*c*) To solve the deadlock created by the overdues it seems desirable to put them on such a basis that they can be repaid by the members. This means that they should be brought down to the present market value of the land and spread into instalments within the paying capacity of the members. Owing to the uncertainties in the price level introduced by the war however it seems necessary to put off final settlements for some time.

(*d*) To avoid future difficulties, to ensure regular payment of instalments and as a consideration for the concession, members, whose debts have been so settled, should be required to surrender their land to the societies and it should be leased to them on the hire purchase system.

(*e*) The best way of disposal of lands acquired by societies and banks appears to be to give them to the original owners or their near relatives or other cultivators on hire purchase system. This would get over the difficulty of finding cultivators with enough money to purchase the land and avoid the danger of dislocation of rural economy by the passing of the land into the hands of non-cultivating classes. Where this method does not succeed attempts will have to be made to sell it by auction. If the land is in large compact blocks it may be utilised for model farming with the help of the agricultural department.

(*f*) It does not seem desirable to fix more than twenty instalments. Rate of interest should be as low as possible but will have to be a little more than what the society has to pay on its loan.

(*g*) To supply the banks with long term funds for the purpose it will be difficult to raise debentures in the market. Where most of the assets of a central bank have got frozen and it is unable to repay its deposits, there does not seem to be any alternative but to make the deposits repayable in instalments that is to say convert them into debentures. Where only a small percentage of the loans is frozen what is required is only the creation of confidence among the depositors and this may be done by the grant of a cash credit by Government for a short period.

(*h*) It is not desirable that Government should as a rule make up the losses of co-operative banks. This would amount to penalising the general tax payer for a few depositors. It would also do harm to the co-operative movement itself by perpetuating the impression that Government is bound to come to the help of co-operative banks however badly they may be managed. Government help is justified only if it would enable the banks to tide over a temporary difficulty. The loss must therefore fall on the creditors as in commercial banks. In such circumstances liquidation of the bank can be avoided only if the creditors agree to a reduction in their claims. Where a substantial majority of the creditors agree to such reduction it may be desirable to make a provision preventing the small minority from taking the bank into liquidation. Such a provision would however only be necessary during an emergency and it would be dangerous and harmful to co-operative credit to include it in the the co-operative law. Even an emergency enactment of this kind is bound to make it difficult for co-operative banks to obtain deposits for some time but the effect is likely to pass away when it is realised that it was an exceptional measure and when confidence is restored by better working of the banks.

(*i*) It is essential that members of co-operative societies should obtain finance for their current requirements and unless this is supplied it will be difficult to recover the instalments. Where the Provincial Bank is not affected, it should be possible to get fresh finance from it till banks are again able to get deposits. Where this is not possible Government should arrange to supply fresh finance.

(*j*) To ensure punctual repayments it seems desirable to recover the instalments by taking as much portion of the principal crop grown by the member as would be enough to cover the instalment. It will not be difficult to sell the produce of the members either through the society or the bank as only simple arrangements will be required and the intention would not be to hold it on for a rise in prices.

Note from Madras—(e), (f), and (g).—A large extent of lands has come into the possession of Central Banks and societies and large amounts are locked up in them. The properties held by societies on 30th June 1938 were to the value of Rs. 15·64 lakhs. The properties, in most cases, are unremunerative to the societies and are a source of embarrassment to them. The ownership of lands involves certain duties and responsibilities which neither the societies nor the Central Banks are fitted to discharge. The position, therefore, requires remedy. The question of disposal of lands in the possession of societies has been under consideration for sometime past. There is a proposal under consideration at present whereby the land will be reconveyed to the original owners on what is called the Rent Purchase system obtaining in Burma. Under this system the lands will be given to the original owners, the value of the lands being debited as loans against them, provided they have the repaying capacity to discharge the loans within a maximum period of 20 years. The society will give the land to the defaulters on payment of rent, the lease amount being equal to the yearly instalment fixed. If the defaulter pays the instalments regularly, he will get back the land at the end of the period on payment of a nominal amount and if he fails, he will have no claim to the land which is only leased out to him. If for any reason the original owner is unable to take back the land on these terms, it will be offered to his next-of-kin where possible.

To work the scheme, Central Banks will require long term money. The institutions that can be thought of for the supply of such finance are the Madras Provincial Co-operative Bank and the Central Land Mortgage Bank. The Madras Provincial Co-operative Bank is intended for the supply of short term finance and it cannot afford to lock up its funds for long term purposes. It is not desirable for the Provincial Bank to raise long term money by floating debentures either as it is not desirable to float two sets of debentures in the market—one by the Provincial Bank and another by Central Land Mortgage Bank. Nor can the Central Land Mortgage Bank undertake to finance the scheme as it cannot lend upto the full market value of the property which is an integral part of the scheme. It seems therefore essential that Government should finance the scheme.

The conference may consider any similar schemes under contemplation in other Provinces and make recommendations with regard to the practicability of the scheme and the agency which ought to supply the finance. The conference may also suggest the safeguards necessary to ensure the successful working of the scheme.

(*h*) There is now no provision in the Act for effecting a compromise before the liquidation of a central bank. If for any reason, say misappropriation of funds or losses on account of bad debts, the realizable assets fall short of the liabilities in any bank, liquidation becomes inevitable in the absence of any extraneous help from Government or other sources by way of subsidies or long term loans. A provision of the kind referred to will save the Central Banks placed in such circumstances from liquidation. If on account of these reasons the bank is unable to meet its obligations and if it is not desirable to liquidate the bank in the interest of the movement, the provision contemplated will come in as a handy measure to reconstruct the bank. A similar provision has been introduced in the Bengal Co-operative Societies Bill. It is not necessary to have this provision in the case of primary societies because the central banks are the chief creditors in the case of primary societies and any amount not realised will have to be written off by the Central Banks, and there is no question of compromise. The provision will be useful in the case of Central Banks. The need for this has no doubt not arisen so far.

One chief drawback of the proposal is that it may tend to affect adversely the flow of deposits into Central Banks, because a certain proportion of the depositors will be compelled to abide by the decision of the rest. This course may therefore be resorted to only in very rare cases and even then to a Central Bank where the Board of Management has been superseded.

The conference may consider whether it is not necessary to have a provision of the kind proposed and its possible effects on the flow of deposits into the movement.

III.—PRIMARY SOCIETIES.

RESERVE BANK.

(i) Organisation of new societies as multipurpose societies and reconstruction of the old ones, on the lines recommended by the Reserve Bank of India, to undertake, in addition to credit, marketing, supply of seed, implements, and manure, better farming and better living activities.

Note from Reserve Bank.—In its various publications the Reserve Bank has suggested that in order to bring about a real improvement in the economic life of the agriculturists, the primary societies should not merely provide credit but also undertake marketing, supply, better farming and better living activities so as to bring the whole life of the cultivator within their ambit. Even though the standard byelaws of primary societies permit of their undertaking these activities, they generally confine themselves to credit and the other important functions are overlooked. It is desirable that these should receive proper attention by being specifically provided for in the byelaws. The objections which have been urged against such increase of functions are as follows :—

(1) That it would complicate the working of the society, make it difficult for the average agriculturist members to manage it and thus remove the co-operative spirit.

(2) That it would make it difficult to find out if the society is working at a profit and members resorting to the society for one kind of service may have to pay for another activity of the society.

(3) The different functions might be conflicting, for instance on the credit side the object would be to control credit while on the stores side the object might be to induce the member to spend as much as possible on purchases.

(4) The failure of one kind of activity will bring about the failure of the whole society though its other activities may be sound.

(5) The area of operation which is suitable for one type of activity may not be suitable for another. For instance credit requires mutual knowledge and supervision for which a small area like a village is necessary while marketing and supply to be successful must embrace a large area including several villages.

(6) Unlimited liability which is suitable for a primary credit society may not be suitable for a multipurpose society.

These objections would be valid if the suggestion was for the formation of societies operating over a large area and working as a full fledged bank as well as a trading concern. This is not however advocated by the Reserve Bank. What it recommends is that a village society should take up such functions as would improve the economic position of the farmers and as could be managed in the village itself with the help of a banking union. It is not intended that the society should set up a shop for the sale of goods or the purchase of the produce of its members. All that it is expected to do is to arrange for the sale and purchase through a bigger organisation. There need be no complexity about its functions and no interlocking of responsibilities. The main idea is that the society as a whole pays attention to the entire economic life of its members and tries to bring about an improvement by helping them at every point. It is not suggested that the society should at once start all kinds of activities and it must always guard itself against the dangers mentioned in the objections. But to confine the societies to credit for fear of these dangers will be to lose sight of the very object for establishing them.

III.—*(ii) Area of Operation of such societies.*

Note from Reserve Bank.—The Reserve Bank's suggestion is that there should be one society for one village. The arguments advanced for grouping together three or four villages are :—

(*i*) A multipurpose society will require more intelligent management than is usually available in one village and it is better to have a wide field for selection.

(*ii*) Such a society will require paid staff and wider area will enable it to make sufficient profit to engage such staff.

(*iii*) Factions existing in a village find their place in a village society they will be eased out in a larger society.

(*iv*) It will be possible to cover a much greater area with co-operative societies in a short time.

These arguments do not appear to be convincing. As regards the first point, the standard of intelligence in the villages is generally the same and grouping together would not make much difference. If there are more advanced people in one village it would be a mistake to combine it with a backward village as the members of the latter will then have no chance of taking an interest in the work and learning the first lesson of co-operation. The object should be to train every one to take an active part. As regards the second point if the business of the society becomes so large as to require a paid staff it will be able to make enough income out of its various activities to pay for it even if it is confined to a village. As regards the third, combination may increase factions rather than decrease them, introducing rivalries between different villages. As for the last, a mere hasty extension of area is not desirable as has been proved by past experience. On the other hand in a large area there will be much less chance of mutual knowledge and supervision and the very essence of co-operation will be lacking ; individual needs will not be attended to ; credit will come to be based on property rather than character and the poorer members may not get any help. Separate village societies appear to be indispensable in the present stage of development.

III.—(iii) *Liability of such Societies.*

Note from U. P.—It is now recognised generally that in order that a society may do lasting good, it should embrace the whole of the man in the member. This is not possible until multi-purpose societies are formed which will not only advance loans in cash or kind but also arrange for the sale of their produce and introduce better living activities including, of course, better farming. In the 2nd proviso to Section 4 of the Co-operative Societies Act of 1912 the liability of a society of which the object is the creation of funds to be lent to its members, and of which majority of the members are agriculturists shall be unlimited. So far as pure loans are concerned the liability should be unlimited and there is no occasion for any conflict. Lending, however, covers advances against pledge of produce and for credits under this head, unlimited liability should do. The difficulty can be got over by approaching Government for necessary exemption under Section 46 of Act II of 1912 or corresponding provision under the amended Acts. There could be no difference of opinion that for better living activities, the liability should be limited.

Note from Bombay.—From the inception of the movement in this country unlimited liability has come to be associated with and has even been made obligatory for rural credit institutions. Most co-operators have, therefore, come to regard the two as invariable concomitants. The type of society founded on the Raiffeisen model adopted unlimited liability, as it was considered that it carries with it certain advantages of considerable importance in a co-operative society. In the first place, it was calculated to bring the members into a close brotherhood and ensure a real knowledge of one another's business affairs and evoke in them a sense of responsibility which is vital to the success of a co-operative society. Secondly, it is the cheapest form of security that could be developed in a class of people who had very little tangible security to offer for their borrowings beyond their own character. Thus the benefits of unlimited liability are undoubted, as it can provide finance for the really needy poor people who would otherwise be unable to get it.

This form of liability has been tried now for over a generation in India and though where the implications of unlimited liability have been thoroughly understood, the system has worked well, the expectations of unlimited liability that were originally entertained, cannot be said to have been fulfilled. Unlimited liability is, on the other hand, regarded as a stumbling-block to the spread of co-operative credit in certain rural areas. Agriculturists who are not quite poor and understand business methods and also the full implications of unlimited liability, have fought shy of such liability and have kept aloof from societies with unlimited liability. Rural leadership of the right type which alone can provide adequate safeguards for sound management is, therefore, not always forthcoming. The result is that an adequate measure of watchfulness and control has been lacking, and the sense of security engendered by unlimited liability has been, to some extent, responsible for liberal finance to societies by central financing agencies and over-finance of members by societies.

Unlike the pure Raiffeisen model, most of the credit societies formed on the basis of unlimited liability have adopted the share-system bye-laws. Shares, while encouraging the thrift aspect of the society, also provide a guarantee fund against loss and inspire confidence in creditors, and correspondingly reduce the need for unlimited liability so far as the raising of funds is concerned. Moreover, under the existing law, unlimited liability is contributory and can be enforced only by the liquidator after a society is ordered to be wound up. In practice, this contributory liability is rarely enforced and is not easy to be enforced. It has also to be remembered that when harvests and prices are good, the occasions on which unlimited liability need be enforced, hardly ever arise. When, however, on account of continuous general economic depression, such occasions arise in any considerable number, Governments would hardly permit the enforcement of unlimited liability. Unlimited liability serves to that extent to create a false sense of security in creditors.

Time has, therefore, arrived when it is necessary to consider whether under proper safeguards the unlimited liability cannot be substituted by limited liability. In the multi-purpose societies of the type now contemplated unlimited liability is unsuitable for several reasons. The area of operations of such a society is not so compact as to secure mutual vigilance and mutual pressure to ensure due fulfilment of members' obligations. Secondly, the society is intended to undertake not only credit business, but also the business of marketing of produce, supply of agricultural requirements etc. In an ordinary credit society, it should be possible to introduce limited liability and provide for reserve liability which may be fixed at four or five times the share capital contributed by the members or at a lump figure such as Rs. 50 or Rs. 100 per member. This form of liability would enable agriculturists including those who are substantial and businesslike, to know exactly the extent of their financial liability and also enable the creditors to know their security likewise. As a result, agriculturists, rich and poor, advanced and backward alike, can join hands and the pooling of their resources and active participation in the management may conduce to better working of societies.

Besides, various Governments are at present considering measures for the relief of agricultural debtors and the use of co-operative methods in future to prevent them from relapsing into debts. If, therefore, co-operative societies are to include as their members persons whose debts have been conciliated to be within their repaying capacity and against whom awards under such debt conciliation measures are pending, unlimited liability in the case of such members would cease to have any meaning and if co-operation is to provide for the greatest good of the greatest number, the fetish of unlimited liability will have to be abandoned and replaced by a greater degree of supervision and control.

Note from Madras.—If the higher classes of people who do not require loans and whose services for the management of the societies might be valuable, have not joined the societies, it is because they do not want to take unnecessary responsibility. It is a matter of common knowledge that persons who do not wish to borrow, do not think of joining a credit society. Yet, these are the very persons to give strength and stability to a society. It is likely that some of them are kept out of the societies because of the unlimited liability. It is not, however, absolutely necessary to alter the character of the societies on that account. Societies have not suffered from lack of credit due to the absence of such persons though they might have been, as already stated, handicapped to the extent to which such persons are not available for management. It is neither necessary nor desirable, therefore, to change the liability of all rural societies from unlimited to limited. Such a course is likely to impair the credit-worthiness of the societies. For, while the Central Banks generally look to unlimited liability as an important source of ultimate security for the loans advanced, it is also the cheapest security that the members who cannot raise a large share capital, can offer to the creditor. It will not be possible to change the liability of all the existing societies, even if a change is advocated. At best, the principle can be relaxed in special cases, wherever necessary. The law as it stands at present in Madras prohibits the registration of rural credit societies on unlimited liability basis. The question of amending the law to provide for relaxing the rule in exceptional cases has been taken up already and a suitable amendment to the Act is under consideration.

This question was first suggested for the last conference of Registrars held in December 1936. It was considered only by the preliminary conference of Registrars. The subject did not go before the final conference and no resolution was recorded. The present conference may, therefore, consider this question and reach a decision.

Note from Reserve Bank.—For village societies unlimited liability is essential for the following reasons :—

(1) The village society is based on mutual knowledge and supervision of members. If this exists unlimited liability is not a hardship. Without it, the society cannot be truly co-operative.

) The credit which the society is able to get is the result of the unlimited liability. If it is given up each member mu get credit according to his assets and poor members without property will not get any credit. The financing agency will deal with each individual member and not the society as a whole.

(3) The assumption of such liability for each other is not looked upon with the same distrust in villages as in towns because in villages people know each other intimately. It is their willingness to undertake such liability that makes it possible to organise a credit society. When they cease to do so, the smaller cultivators will have no place in the society and the society will cease to work co-operatively.

(4) The fact that it cannot be enforced until liquidation, does not make it less effective.

(5) If losses have occurred in spite of unlimited liability it is because its implications were not understood and mutual supervision was not properly exercised.

(6) Substantial people have joined in the past in spite of unlimited liability and if they are scared off now, it is on account of mismanagement of the societies rather than unlimited liability.

(7) The difficulty in regard to members of a multi-purpose society who do not wish to borrow nor to undertake responsibility for others but join in order to take advantage of other activities will arise only if there is a large number of such persons in a village. A large majority will generally borrow for seed, fertilisers, etc., if the society undertakes to supply these. The question of giving up unlimited liability will arise only when the cultivators are sufficiently advanced economically.

III.—(iv) *Purposes and duration of loans.*

(a *Whether an absolute ban on unproductive loans is unsound in view of the fact that such a ban leads to borrowing from moneylenders.*

Note from Sind.—It is the duty of a co-operative society to encourage its members to save so that they have their own money to meet emergencies. But to tell a man whose child is ill or whose father has just died that the society cannot help him is tantamount to telling him to go and borrow from the money lender and a money lender prosecuting his wholetime business is likely to collect his dues first. This leads to the question whether a member of a co-operative society should not be required to confine himself to dealings with the co-operative society and if this is not practicable, whether he should not be required to declare annually all his liabilities.

Note from Reserve Bank.—Though a co-operative society should see that a member borrows as far as possible for productive purposes, there is no objection to its lending for other necessary purposes. What the society has to see is that the loan is within the paying capacity of the member, that it is required for a necessary purpose and that the member does not spend more than is absolutely necessary.

(b) *Whether stricter rules for financing members are necessary to ensure that loans are given with reference to the repaying capacity as measured in terms of the land revenue.*

Note from Sind.—Whether in view of the heavy arrears in the agricultural credit movement, stricter rules for financing members are necessary to ensure that loans are given with reference to the repaying capacity as measured in terms of the land revenue. The fall in prices has brought to light the weak spots in the Co-operative movement, one being that loans are not related to the repaying capacity. Since Government assessment is based on the profits of agriculture, the conference should consider in detail the relation of repaying capacity to prices and produce or to land revenue and lay down some formula for guidance of the agricultural credit societies.

(c) *Whether societies should advance loans in emergencies like crop failures and if not how such finance should be provided ?*

Note from Reserve Bank.—It is found that wherever the societies have advanced loans for emergencies from their own short term funds, they have invariably got into difficulties ; such loans become frozen and the normal activities of the society are adversely affected ; in many of the cases the societies become stagnant and further finance to members becomes difficult, if not impossible. Emergency finance therefore does not seem to be a proper function of primary credit societies. Similar is the experience of foreign countries. If the normal working of the co-operative societies is to be kept intact, it seems necessary to arrange for emergency finance from elsewhere. In many foreign countries the Government supplies such finance. It is to be considered what should be the policy in India, and what part, if any, should the co-operative societies play in the scheme for supplying such finance.

III.—(v) *What is the remedy for the misapplication of loans by members of co-operative societies? Can the evil be checked by making the offence punishable with a fine prescribed for the purpose?*

Note from Madras.—It is necessary that every loan shall be applied only for the specific purpose for which it is issued. If a loan is misapplied, the Committee can, under the bylaws, foreclose the loan and take action to recover it.

In the Bengal Co-operative Societies Act, it was proposed to make a provision that no member shall use a loan for a purpose other than that for which it has been sanctioned except with the permission of the society and the financing bank; and that any member who contravenes this provision shall be liable to pay a fine of such sum as may be provided in the Rules.

Misapplication, of course, is not uncommon and has to be checked as effectively as possible. And this contributes in no small measure to the overdues in societies. But it seems doubtful if legislation can effectively check it. The members should themselves realise that they are doing a double wrong—to themselves and to the society—when a loan is misapplied. This can best be achieved only by a proper education of the members coupled with intensive supervision by the panchayatdars and other agencies.

The Conference may consider whether any legislation is desirable on the subject and suggest further means of effectively checking the possible misuse of loans by members of societies.

III.—(vi) *Is it desirable to prohibit persons from holding the office of the President, Secretary or Director of a Society for a period exceeding a certain number of years?*

Note from Madras.—It is not uncommon that the same person continues in office as President, Secretary or panchayatdar for a number of years. This is not desirable, for, often such long continuance in office results in abuse or fraud. It is necessary that he should give place to others, if available, who are willing to do the work. The management requires more men, but good men. Mr. Darling however in his book on 'Co-operation in Germany and Italy' has recorded the case of a good co-operative society where one President held office for 20 years and after his death his son held office for 12 years and was still the President of the Society. But these are only exceptions, not the rule. A time-limit of 5 years for the office-bearers of urban banks and central banks may be fixed. If extension beyond the period is absolutely necessary, the previous consent of the Registrar or the Financing Bank concerned should be obtained. In the case of rural societies the limit need be enforced only if their working capital exceeds Rs. 10,000.

The Conference may consider whether the above suggestions are desirable in the light of experience gained in other provinces.

III.—(vii) *Compulsory extension of membership.*

(a) *With a view to extend the benefit of co-operative credit and sale to a very much larger number of agriculturists than is the case at present, how far is it desirable to relax the principle of voluntary and select membership in the case of agricultural credit and multi-purpose societies ?*

Note from Bombay.—A co-operative society is a form of organization wherein persons voluntarily associate together on a basis of equality, with a view to promote their common economic interests. In a society which is organised to disperse credit, the composition of its membership is of vital importance. The society is formed to create funds to be lent to its members ; that is to say, it incurs liability for debts and takes some risk in investing the money so borrowed in loans to its members. The success of the society, therefore, mainly depends upon the proper selection of members. The members must be trustworthy and honest and must as far as possible be able to repay and what is more important must be willing to repay. The principle of selection is also helpful in another respect in that it eliminates the undesirable elements from the management of societies. These principles of co-operation *viz.* the voluntary character of membership and right of selection of the right type of members have been adhered to since the inception of the movement. The only note-worthy exception is with regard to Crop Protection Societies (*Vide* Section 64-M. of the Bombay Co-operative Societies Act VII of 1925).

Partly a result of the insistence on these principles, it has not been possible hitherto to extend the benefits of co-operation to a vast majority of the rural population. The latest statistics disclose that only 258,376 persons have come within the fold of the movement, through membership of agricultural societies. The number of societies works out at one for 5 villages and membership works out 1·6 of the rural population. Considering that one member represents a family of 5, 6·5 per cent. of the rural population takes advantage of the co-operative movement.

The present state of affairs can be attributed to two amongst other factors, *viz.*, (1) the principle of selection coupled with restrictions imposed by societies and the department with regard to membership of societies and (2) restrictions imposed with regard to fresh registration of societies. As regards (1), in addition to the elementary principle of co-operation that membership is open only to persons of good character, with a view to ensure credit-worthiness, the model bye-laws also provided that every member should possess an economic holding and pay a minimum revenue assessment. Also in practice, the indebtedness of a person are taken into account before he is admitted to membership. The proviso regarding economic holding is now deleted, but certain other restrictions continue to operate. Two of these are that a person desiring to be a member should have no unauthorised arrears of Government dues outstanding against him or a decree of a Civil Court pending against him. As regards (2), no society is registered unless the limit of outside borrowings is restricted to one sixth of the total available assets of the member or four times their contributions whichever is less. As a result of these and other stringent restrictions operating at present, many agriculturists have had to keep out of the movement and some of those who are members of co-operative societies have also not been able to secure financial accommodation at a time when they need it most.

If, therefore, co-operation is to cater to the needs of the bulk of the rural population, it is worthwhile considering whether the two principles underlying co-operation could be relaxed to a certain extent so that the agriculturists may avail themselves at least of crop finance on a much larger scale than at present. Relaxation of the principles would need additional safeguards to serve as a counter balance. The following safeguards might be usefully considered.

1. Charge against crops may be made effective. Under Section 24 of the Bombay Co-operative Societies Act, the charge is inoperative against a *bona fide* purchaser or transferee for value *without notice*. Consequently the

statutory provision has not sufficiently helped to protect the interests of societies. It may be desirable to make the alienation of standing crops or produce of land, a criminal offence.

2. *Combination of credit and sale.*—Produce from the land being the security for the loan advanced, the debtor member should not be allowed to sell the produce except through the agency of the society. If the produce is sold otherwise, it may be dealt with as stolen property in the hands of the buyer or any person holding possession of it.

3. Membership of the society itself should constitute a charge on the immoveable properties of members. Such membership should be noted in the Record of Rights, and serve a notice to intending buyers.

In an ordinary credit society it is doubtful whether in spite of the safeguards mentioned above, the principles underlying voluntary and select membership could be relaxed in view of its unlimited liability. A multi-purpose society, however, stands on a different footing. Clause 50 of the Bombay Agricultural Debtors' Relief Bill which is now on the legislative anvil provides *inter alia* that no award shall be made by the Debt Adjustment Board unless the debtor is at the date of such award a member of a Resource Society. Clause 75 of the Bill further provides that no debtor who is a party to an award and who is indebted to a resource society shall alienate or encumber the standing crops or the produce of his land without the previous permission of the society. Under the proposed legislation for debt adjustment, a multi-purpose society is the only suitable agency which could combine credit for current agricultural needs with marketing of agricultural produce and if it is formed on the basis of limited liability, there should be no objection to the relaxation of the principles referred to above.

(b) *Compulsory membership of co-operative societies as part of the scheme for liquidation of indebtedness of agriculturists.*

Note from U. P.—It is common ground that the indebtedness of the agriculturists in various provinces has reached an appaling figure. It is obviously beyond the means of the debtors to pay them completely or even substantially. Whatever be the agency employed for scrutinising and scaling down the existing indebtedness it is obvious little good will be done unless means are found for repayment of the amount as well as for financing agriculturists for their crop requirements. Legislation has got to be equitable and if the debts are scaled down, some guarantee has to be extended to the creditor that the amount so reduced will be available to the money lender in a lump sum or in suitable instalments. The Bombay Debtors' Agriculturists Relief Bill has provision to the effect that scaling down of debts and fixation of suitable instalments will apply only to those agriculturists who are willing to join or have joined co-operative societies. The idea is not new. Before the creditor is asked to accept the decision of award, he should have some guarantee that the amount as reduced will be paid up. This can happen only if the debt as conciliated is treated as the creditor's deposit in the society.

We are, however, up against a difficulty. Hitherto over membership of societies has been recruited on a selective basis. Character plays its own part in selection and the majority of defaulters may not come up to the test. If the scheme has to be a success, some compromise will have to be arrived at according to which defaulters guilty of moral turpitude or notoriously known for dishonest dealings will have to be kept out of the fold of the society. The question is one which requires the considered opinion of the Conference.

III.—(viii) (a) *Development of secondary occupations and subsidiary industries on co-operative lines.*

Note from Bombay.—There is no gainsaying the fact that in a large majority of cases, agriculture does not keep the agriculturist and his family engaged all the year round. The agriculturist has enforced leisure for periods which usually vary from three to six months vacations without any pay or allowance. This is a very weak point in the rural economics of the agriculturist and is often responsible for his deficit budget. Very few persons in urban areas can hope to keep out of debt if they have to maintain themselves for twelve months on the toils of six to nine months only. The most natural solution of the problem of the low standard of living and the rural indebtedness would, therefore, be to provide work which would bring additional income to the agriculturist. World-wide forces have exposed him to the blast of the competition of machine-made goods and not only the subsidiary industry but also the small-scale rural industries, which with small-scale agriculture made up balanced economy, have suffered grievously. Agriculture will, therefore, have to be converted into a whole-time occupation for the year or if it is to remain a part-time occupation, rural industries must be found, revived and revitalized, so that even if they were uneconomic in the ordinary sense and did not yield a fair return on labour, they may supplement the inadequate return from agriculture, and wipe out the deficit in the budget of the agriculturist.

It is neither necessary nor possible to specify any one or more industries which would suit all areas and all persons. Weaving, spinning, sericulture, apiculture, poultry-farming, basket-making, rope-making, dairying, processing work in connection with the local agricultural produce, paper-making and similar occupations would suit rural areas. No high order of technique or technical skill is necessary for such industries. Whatever may be needed by way of technical advice or guidance, ought to be forthcoming from the Department of Industries. The important problem, however, is the organisation of such industries.

Their development requires supply of raw materials and sale of finished products. A credit organization would not suit the purpose. The village multi-purpose society and probably even the better farming society can be the pivot round which the organization of such rural industries may turn. Such a society should supply the necessary raw materials, tools and implements to its members and should arrange to sell the finished products. Finance and the supply of raw materials can be arranged without much difficulty, but the sale of finished goods is a problem which is not easy to solve. For this purpose, members of local societies should, in the first place, be encouraged, as far as possible, to use the locally-made goods. Multi-purpose societies and even taluka sale societies whose bye-laws permit the supply of domestic and other requirements can in this way be helpful in the sale of the products of secondary and other rural industries. Co-operative stores or commission shops in urban areas will also have to be opened. Where consumers' stores or industrial associations for marketing of hand-made products can efficiently do this work it may be entrusted to them. When, however, it is not possible, sale shops may have to be opened in suitable areas on behalf of the multi-purpose societies with the active assistance of the central financing agencies and the State.

The problem is a difficult one, but with efficient co-operative organisation, efforts on the part of Government departments and with the assistance of leaders of public opinion with knowledge of local conditions and spirit of service, gradual and progressive solution should not be impossible.

(b) *To what extent and in what form can co-operative societies help the member in diversification of farming?*

Note from U. P.—We are all anxious to increase the resources of the income of the agriculturist. The need of a supplementary occupation has been emphasised from time to time. This can take place in one of the two ways, *viz.*, cottage industries or diversification in farming. The latter has received little or no attention in these Provinces and what is true about them holds good more or less with respect to others. Poultry farming, bee keeping, sheep breeding or the like may be conveniently tacked on to cultivation of crops. A lead in this connection from the Conference will carry a weight of its own.

(ix) *There are some cases where societies registered under the All-India Act of 1904 or 1912, and now deemed to be registered under Provincial Acts, have jurisdiction beyond the Province to which the Provincial Act applies. It has been suggested that this position is irregular and that if it is to be allowed to continue Central Legislation by the Government of India is necessary. How far is this necessary and in what manner can legislation be made?*

Note from Madras.—This question came up for consideration before the Registrars' Conference held in February 1934. The Conference resolved that All-India Legislation was necessary for the registration of Co-operative Societies whose jurisdiction extended beyond the Province in which it is registered. Incidentally, it was also suggested that the question should be examined of the possibility of societies registered in Indian States joining an All-India Association.

Opinion was, however, divided on this question during the discussion at the Conference. Particularly a suggestion that the Registrars of the several Provinces in which such a society carried on its business should have some control over its branches, etc., in such Provinces was opposed by some members at the Conference. In view of the divided views and as the powers of the various legislatures in the new constitution had to be examined after the constitution was ushered in, the Government of India then dropped the question of undertaking All-India legislation.

Cases exist in the Madras Province, however, where certain societies have jurisdiction over portions of other British Indian Provinces and in portions of Indian States, too. In one case (the Madras Posts and Telegraphs Co-operative Society) the Society has jurisdiction over French India also (Pondicherry). Two Insurance Societies (the South India Insurance Co-operative Society and Postal and R. M. S. Benefit Fund) have jurisdiction throughout India. No practical difficulties have been met so far in the business of these societies because of such jurisdiction. These Societes were registered originally under the All-India Acts. Under section 62 (1) of Act VI of 1932 (Madras), the bylaws of the societies shall, so far as they are not inconsistent with the express provisions of that Act, continue in force until they are altered or rescinded. But section 1 (2) of the Act lays down that the Act shall extend to the whole of the Presidency of Madras. In so far as the area of operations of these societies extend beyond the jursdiction fixed in section 1 (2) of the Act, their position contravenes the provisions of section 62 (1) of the Act. It has been held therefore that these societies should either limit their jurisdiction to the Madras Presidency or that suitable all-India legislation should be made to regularise the position and to deal with questions relating to supervision, control, etc., arising out of the fact that the societies function even outside the Province. The opinions of the concerned societies in the matter were called for. From the opinions received so far, it is seen that the societies favour the continuance of the existing position and ask for suitable legislation. These societies have been discharging useful function among particular classes of persons who constitute a homogeneous unit such as the employees in a Railway Company or employees in the same Postal Circle with a wide jurisdiction. The Insurance Societies must have a wide area, if they are to do appreciable and useful business. If they are compelled to limit their jurisdiction at this stage it may result in practical difficulties and also cripple their business and utility. In this connection attention is invited to the E., H. & L. Department Circular No. F.-44-13/39/A., dated the 24th August 1939.

The Conference may consider this matter again and make suitable recommendations.

(x) *Under section 43 of the Madras Co-operative Societies Act, if the Committee of any registered Society is not functioning properly, the Registrar may dissolve the Committee and appoint a suitable person or persons to manage the affairs of the society for a specific period. In cases where the bad condition of the societies is due to one or more individuals in the Committee, is it not desirable to provide for their removal instead of superseding the entire committee ?*

Note from Madras.—Supersession of committee under section 43 of the Act has been found to be an effective remedy for factions and mismanagement in societies. But experience has shown that in a large number of cases, the bad state of affairs is due to the presence of one or two undesirable persons in the Committee. In these cases there is no need to supersede the entire committee ; the removal of such of the directors as are directly responsible for mismanagement will meet the purpose. But before the individual directors are removed, care has to be taken to see that the working of the societies does not suffer on that account. As it is, when the entire committee is superseded nobody takes it as a personal offence but when some of the directors, generally influential, are singled out and removed, it may give rise to ill-feelings which may ultimately have adverse effects on the working of the society. This danger has to be guarded against. But still, the provision suggested will be very useful to purge the movement of undesirable elements and thereby safeguard the interests of good members. The Conference may offer its views on the proposal.

IV.—LAND MORTGAGE BANKS.

(i) *What should be the area of operations of a Primary Land Mortgage Bank ?*

Note from Bombay.—When primary land mortgage banks were organized in the Province of Bombay, the area of operation was kept at a district which may consist of as many as ten or more talukas. A large unit was considered necessary to reduce overhead expenses and to obtain more business. A primary land mortgage bank should be able to work at a profit when it obtains business to the extent of about 2 lakhs or more. If a small area is able to provide this business, the advantages of having a small area of operation are manifold. The area is compact and concentrated attention can be given by the directorate who will have intimate knowledge of local conditions. It would be possible to maintain close touch with the borrowers, to ensure proper utilization of loans and punctual recovery, and to keep a watch over the security with a view to see that it is not allowed to deteriorate. The land valuation officer will be able to tour in a compact and homogeneous area. As a primary bank acts mainly as an agent of the Provincial Land Mortgage Bank but on a self-supporting basis, the area which is suggested as its area of operation should consists of one or two talukas, and if within this area the amount of business required for its successful working is not forthcoming, the area should not be considered as suitable for starting a land mortgage bank.

IV.—(ii) *Are primary Land Mortgage Banks necessary ?*

Note from Reserve Bank.—In view of the fact that the Central Bank supplies the finance almost entirely, and the Primary Banks do not exercise any supervisory functions after a loan is granted, the necessity of having Primary Banks is sometimes questioned and it is said that they only increase the cost of the loan to the cultivator. On the other side it may be pointed out that they supply the local knowledge at the time of sanctioning the loan, and their owned funds serve as a safety valve, so that the central bank is to some extent saved from defaults and losses. This would not be possible if the central bank works through branches and the general experience elsewhere also does not appear to be in favour of one central institution dealing with agriculturists over a large area through branches. It is however necessary that the primary banks should exercise supervision over the borrowers and it is for consideration whether for this purpose and for the co-ordination of short term and long term finance it would not be better for the Central Land Mortgage Banks to make its advances through a banking union instead of having separate primary land mortgage banks.

IV.—(iii). *Scope for loans for improvement of land and agriculture and how to extend it ?*

Note from Reserve Bank.—So far the land mortgage banks have been almost too exclusively concentrating their efforts on liquidation of old debts. It need hardly be pointed out that if the land mortgage banks are to be kept in a sound and healthy condition and are to play a proper role in rural economy they must for the most part finance improvement of land in order to increase the income of the borrowers and thus ensure recovery of their dues. The scope for loans for improvement of land has so far been very small on account of fragmentation of holding and the decreasing return from agriculture owing to depression. There is considerable scope for improvement of agriculture in India and the land mortgage bank can play an important part in financing the new schemes of improvement. In order to extend the scope for loans for land improvement the following suggestions may be considered :—

(*i*) Consolidation of holdings should be encouraged and the land mortgage banks may directly or indirectly help scheme for consolidation of holding.

(*ii*) Propaganda should be made among the agriculturists regarding the improvements possible in each area, the advantage likely to accrue from them, cost of improvement, the terms on which the money can be made available by the land mortgage bank, etc.

(*iii*) Close co-operation between the land mortgage banks and the Agricultural Department which should advise the land mortgage banks in financing schemes of improvement, supervise the schemes so financed and also help to carry on propaganda. For this purpose the desirability of nominating an officer of the Agricultural Department to the Board of the land mortgage bank may be considered.

(*iv*) Loans for land improvement may be advanced at a lower rate than loans for other purposes.

IV.—(iv). *Co-ordination between primary societies and land mortgage banks*

Note from Reserve Bank.—In its Statutory Report the Reserve Bank of India has recommended a close co-ordination between the land mortgage banks and primary societies and has suggested that a person who wants to borrow from land mortgage banks should be required to serve a period of probation with a multipurpose society. The liquidation of the debts of a person is not of much use unless this follows, if not his actual reform, at least an active desire on his part to renounce his old habits which were the cause of his indebtedness. His dealings with the primary society will show whether he comes up to the stardard or not. Membership of primary societies is also necessary to ensure that the borrower lives up to a budget. It is also in the interest of the land mortgage bank that there should be some institution to finance the current needs of its members as otherwise they would be driven to the moneylender and the changes of its instalment being paid would be jeopardised as the moneylender being on the spot and financing the immediate needs of the cultivator, which are more important to him than those already satisfied, would be in a more favourable position to recover his dues than the land mortgage bank. The banks can no doubt ultimately foreclose the land but this is neither desirable nor profitable. If the primary society or union arranges for the sale of the member's produce it will also be easy for the land mortgage bank to recover its instalments. Thus the advantages to a land mortgage bank of having its members served by a primary credit society are obvious. The corresponding advantage to the primary society is however not always realised and some central co-operative banks are inclined to think that when a member of their society borrows from a land mortgage bank he should not be financed by them as the security of his land is taken away. Some of them also do not realise the undesirability of lending for long term and look upon land mortgage banks as rival institutions. The two institutions are in reality complementary. Central banks not being in a position to give long term loans it is to their advantage that the outside debts of their members should be consolidated and taken over by a land mortgage bank and that they should not be indebted to moneylenders who might take away a substantial portion of their crop. Co-ordination between the two institutions is therefore essential and it is suggested that if there is a good co-operative society in a village no person from that village should be admitted to the land mortgage bank and accommodated unless he becomes a member of such a society.

IV.—(v). *Co-ordination between land mortgage banks and Debt Conciliation Boards.*

Note from Madras.—Both Debt Conciliation Boards and Land Mortgage Banks have as their object the lightening of the burden of indebtedness of the ryots. The extent to which these institutions can achieve their object depends mostly on the degree of co-ordination in their activities. No scheme of debt conciliation can succeed unless there is a proper agency like the land mortgage bank for the clearance of the compounded debt. On the other hand, the work of land mortgage banks will be facilitated greatly if before they discharge the debts of members, the debts are scaled down and the exact extent of indebtedness is determined by Conciliation Boards. So far, there has not been much of co-ordination in the activities of Conciliation Boards and Land Mortgage Banks in Madras. Co-ordination can be brought about by the following methods :—

(1) The presidents or secretaries of land mortgage banks, whose services are available, may be appointed to the Boards so that they may be a sort of liaison officers between the Boards and the Land Mortgage Banks and they may arrange for the quick and easy repayment to the creditors of the sealed down debts. The land mortgage banks will of course go into the question of title and other details relating to the property proposed to be mortgaged and the loan will be given only if its conditions are satisfied.

(2) The Debt Conciliation Board may make it a condition for the scaling down of the debts of any person that he shall discharge the compounded debt with a loan obtained from the land mortgage bank; outside borrowing should be permitted only in case the land mortgage bank refuses to grant a loan.

The Conference may examine the nature and extent of co-ordination obtaining in the several Provinces and outline the best method to bring about the maximum co-ordination.

Note from Reserve Bank.—Co-ordination between land mortgage banks and Debt Conciliation Boards has been generally found to be difficult. People who resort to Debt Conciliation Boards are generally found to be hopelessly involved in debt and even after conciliation their debt is generally in excess of the loan they can obtain from the land mortgage bank. Moreover as Debt Conciliation Boards themselves fix instalments for repayment at a low rate of interest there is no incentive to the debtor to resort to the Land Mortgage Bank. To the extent that debt conciliation boards may give relief to persons who would have otherwise gone to a land mortgage bank, the latter's progress will be affected but this cannot be a matter of regret from the point of view of the cultivator who has obtained relief. Where however all debts are being compulsorily scaled down and spread into instalments by legislation, land mortgage banks may find it difficult to get any business at all. In such cases it might be desirable to introduce a provision like that made by the Select Committee in the Bombay Agricultural Debtors' Relief Bill by which when creditors are willing to have their claims reduced to half the value of the land the debt may be taken over by the land mortgage bank.

IV.—(vi) *Powers to be given to land mortgage banks to call creditors and inspect their accounts.*

Note from Reserve Bank.—Where there is no legislation for the regulation of moneylending or where such legislation has not been in force for a sufficiently long time it is difficult for a land mortgage bank to get accurate information about the debts of a person applying to it for a loan. The borrower himself has no clear idea of the extent of his liabilities and the moneylenders sometimes refuse to give any information. Sometimes the validity of the claim made by them is doubtful and the land mortgage bank has no means of verifying it. Land mortgage banks very often try to induce the moneylenders to reduce their claims but in the absence of reliable information about the real extent of the debt, such reductions may be more apparent than real. In fact it is feared sometimes that the land mortgage banks may be doing a disservice to the cultivators by paying much more to their creditors than they would have recovered through court. Sometimes the debtor and his creditors collude to borrow a higher amount than is actually due to the creditors and share the excess amount borrowed. In order therefore to enable the land mortgage banks to ascertain the correct amount of the loans outstanding against the applicants it seems desirable to give them legal powers to compel the creditors to show their accounts as has recently been done in Madras. The desirability of granting similar powers to land mortgage banks elsewhere may be considered by the conference.

IV.—(vii) *How to make debentures of land mortgage banks marketable and popular security ?*

(a) *Stipulations regarding redemption.*

Note from Reserve Bank.—To make the debentures redeemable any time at a short notice at the will of the bank militates against their becoming a popular security. Investors in debentures want a steady yield on their money for a reasonably long period and do not want to be bothered about finding new sources of investments every now and then. It is likely to contribute to their popularity if the debentures are made irredeemable for a certain period. At the same time it is not desirable that the banks should commit themselves for too long a period. It seems therefore desirable that the debentures should be made irredeemable for a period of ten years. This provision has been adopted by some provinces. Others may consider the advisability of doing the same.

(b) *Formation of sinking fund.*

Note from Bombay.—Land mortgage banks are intended to supply long-term loans to agriculturists at the most economical rates. Their long-term resources consist of share capital reserve fund and mainly debentures which are ordinarily floated to correspond to the period for which the loans are given. In the initial stages, to make the debentures attractive to the public, they are guaranteed by Government with regard to principal and interest. As the main finance is met from the issue of debentures, it is necessary to provide for their repayment as and when they mature. Such provision can either be made by the method of sinking fund or by provision of a debenture redemption account. The provision by way of sinking fund is considered more scientific by the Reserve Bank and its use is advocated by it with a view to make them attractive to the public. Most Governments which have land mortgage banks have accepted the view advocated by the Reserve Bank. The method of providing for a sinking fund consists in setting aside annually from out of the receipts a sum which will accumulate at a fixed rate of equated instalment to the unit desired at the end of a stated period. The debenture redemption account, on the other hand, provides for the carrying over of the principal amount of recovery to a separate account, so that on the assumption that recoveries of principal are punctually made, the amount to the credit of the principal account equals the amount for which the debentures were issued While the sinking fund provision is considered more scientific by banking authorities, it is claimed by the advocates of the debenture redemption account that it enables the land mortgage bank to function in its initial stages at a less rate of interest and as the object of this bank is not to make profits at the expense of the agriculturists and as the issue of debentures is not restricted to a single series but consists of a range varying over a period of time, in the long run the debenture redemption account method is in no way less insecure than the provision of sinking fund and that it results in the agriculturists having to pay a less amount of interest corresponding to the difference between the rates at which debentures are issued and provision is made for the sinking fund.

Under the debenture redemption account, all recoveries towards principal are taken to a separate head. As recoveries of principal are less in the initial stages—in fact, where the debentures are for 20 years, the recoveries by way of principal at 6 per cent. equated instalment are less than sinking fund instalments at 2½ per cent. for the first seven years—the land mortgage bank is able to work at a profit on a less rate of interest charged to the agriculturists. The average term for which loans are granted is less than the period of maturity of debentures even after making provision for a cycle of bad years, so that normally the recoveries of principal are in excess of the minimum amount required to be credited to the debenture redemption account. Accordingly, such excess recoveries would automatically counterbalance any less recoveries of principal in later stages. On the other hand, as provision is made by fixed amounts for sinking fund, if total recoveries in early stages are not forthcoming, due to bad years, provision has to be made in subsequent years at a higher rate or the rate at which loans are given to agriculturists has to be increased to avoid losses.

Another drawback is that where series of debentures are issued at a certain rate of interest, the sinking fund instalment on each series of debentures issued at the same rate is the same annually, irrespective of the date of maturity of the series, whereas under the debenture redemption account the recoveries to principal accumulate more rapidly as the series nears maturity. The consequence is that while sinking fund provision tends ultimately to result in greater profits for the bank, they are at the expense of the agriculturists and that the debenture redemption account does not in any way lead to losses nor is interest of the agriculturists in any way harmed. To illustrate by way of analogy, the difference in practice between the two systems is as follows. On the assumption that a loan is made to an agriculturist of Rs. 1,000 at 6 per cent. for 20 years, at the end of 10 years the agriculturist, by payment of equated instalments of Rs. 87 per year, will have paid Rs. 400 by way of principal. Should he later require a loan of Rs. 400 for land improvement, it

would be refused to him under the sinking fund method, as the equated instalments he would have to pay would be Rs. 87 on Rs. 1,000 *plus* Rs. 35 on Rs. 400, and his repaying capacity is presumably a little higher than Rs. 87 only. On the analogy of debenture redemption account, he would be treated to have a balance of Rs. 1,000 *minus* Rs. 400 towards his principal account which, together with the amount of the new loan, would make the outstandings Rs. 1,000, for which he has sufficient assets and repaying capacity. The sinking fund method leads ultimately to greater profits which, however creditable it may be from the business point of view, can only be at the expense of the agriculturists for whose benefit the land mortgage bank is run with the help of Government. It is, therefore, necessary for the Reserve Bank to consider in greater detail whether the existing policy should not be altered.

Note from Reserve Bank.—The Reserve Bank's suggestions regarding sinking fund are contained in a note on the Financing of Land Mortgage Banks in India, cyclostyled copies of which were sent by it to most of the Registrars. They are to the effect that out of the total recoveries made by the central land mortgage bank a fixed sum should be contributed to the sinking fund every year. To decide what this sum should be the likely average yield of the securities in which the Fund will be invested has to be first found out. The sum will then be that which when invested every year at that rate of compound interest will give, at the end of the period for which loans have been given, the amount for which debentures are issued. To take a concrete instance if the Bank has loaned out ten lakhs for 20 years and issued debentures for the amount, the sum to be contributed will be that which at compound interest will give ten lakhs at the end of 20 years. If the yield on government securities is assumed to be $2\frac{1}{2}$ per cent. this sum works out at Rs. 39,147. Supposing the amount lent by the bank is to be repaid in equated instalments at $4\frac{1}{2}$ per cent. the amount it receives every year will be Rs. 76,875. If the debentures are issued at 3 per cent. the bank will have to spend Rs. 30,000 out of this for payment of interest on debentures, and contribute Rs. 39,147 to the sinking fund and the remaining sum of Rs. 7,728 will be available to it for meeting its other expenses.

Bombay considers that this arrangement leaves too low a margin of profit to the bank which would be embarrassing in the initial stages when the business has not expanded sufficiently and would therefore necessitate the charging of a higher rate to the borrowers. It therefore proposes instead a debenture redemption fund to which only recoveries on account of principal should be credited every year which would also give the required amount when debentures fall due for payment. Since in equated repayments there is more interest repaid in the beginning, this would leave a larger income to the bank and enable it to work on a lower margin.

This scheme does not however take into account what would happen in later years. Just as the recoveries on account of interest will be greater in the beginning, they will be lower in later years when the bank may find that its income is not enough even to pay the interest on debentures, far from being sufficient to meet its other expenditure. To take a concrete instance the sum of Rs. 76,875 which it receives in the first year will consist of Rs. 31,875 on account of principal and Rs. 45,000 on account of interest. In that year it will put Rs. 31,875 in the Debenture Redemption Fund and after paying Rs. 30,000 as interest on debentures will have a comfortable margin of Rs. 15,000 for expenses. But in the eleventh year the principal will be Rs. 49,500 and the interest Rs. 27,375 which will not be enough even to pay the interest on debentures. In the 20th year the principal would be Rs. 73,560 and interest only Rs. 3,315. It may be said that interest on the debenture redemption fund will be available to meet the expenses but this will not be enough. It may also be said that the bank will be increasing its business and this may give it the additional funds necessary. But there can be no certainty of this and in any case business cannot be expected to increase all the time. Thus the defect in the debenture redemption fund is that it hides from the bank the difficulties it may have to face towards the closing years of the debenture series in regard to the payment of interest and meeting its own

expenses. It also does not take into account the possibility of any part of the principal proving bad. If some of the loans cannot be recovered in the closing years of the series the bank may find it impossible to make good the loss to the debenture holders since its own income will have dwindled.

The Sinking Fund by showing clearly from the beginning the sum which the bank must set aside to meet its liabilities enables it to frame its budget on sound lines and avoids the danger of its using up its resources before proper provision has been made for its liabilities. It is of course possible to vary the details of the scheme slightly. For instance it may be possible to have a combined sinking fund for a number of debenture series but this will require more careful management. The main principle of a fixed contribution irrespective of recoveries on account of principal or interest must however be adhered to.

The instance of a hardship likely to be caused by the sinking fund given by Bombay in the last paragraph is unintelligible. When a loan has to be repaid in equated instalments, the instalment remains the same throughout the currency of the loan, and if his paying capacity is not more than the instalment he cannot be given any more loan even though his previous loan has been reduced. On the other hand if his paying capacity is higher there is no reason why a further loan should not be given to him. The sinking fund has nothing to do with the grant or refusal of fresh loans. If Bombay is objecting to the system of recoveries in equated instalments this is another matter altogether.

(c) *What assistance can Reserve Bank give in this matter by--*

(*i*) *Purchasing debentures;*

(*ii*) *Floating debentures on their behalf;*

and (*iii*) *any other method.*

Note from Madras.—Under section 17 (8) of the Reserve Bank of India Act of 1934, the Reserve Bank can purchase and sell the securities of the Government of India or of a local Government and in the proviso to this section it has been stated that securities fully guaranteed by any local Government shall be deemed to be the securities of that Government. The Madras Government have guaranteed unconditionally both the principal of and the interest on the debentures floated by the Madras Co-operative Central Land Mortgage Bank and there is therefore no statutory prohibition to the Reserve Bank of India purchasing the debentures of the Madras Co-operative Central Land Mortgage Bank.

2. The Reserve Bank of India has however expressed its unwillingness to purchase the debentures of land mortgage banks because it cannot lock up its funds by purchasing the debentures which are not easily marketable. The purchase of debentures by the Reserve Bank of India is likely to add to the prestige of the debentures and make them more easily marketable. Now that the debentures of the Central Land Mortgage Bank are irredeemable for the first 10 years of issue and a separate Debenture Redemption Fund for each series of debentures has been constituted, the popularity and marketability of the debentures are bound to increase. If at this stage the Reserve Bank of India also purchases the debentures of the Central Land Mortgage Bank at least for a few lakhs, it will be to the further advantage of the bank.

3. The last series of debentures issued by the Central Land Mortgage Bank bears interest at 3 per cent. The demand for these debentures from the investing public has not been quite encouraging and it is felt that under the present conditions unless the rate of interest is raised the bank may not find it possible to secure from the open market all the funds it requires for its business. But any enhancement in the borrowing rate of the Central Land Mortgage Bank would mean a corresponding increase in the cost of the loan to the ultimate borrower. Hence it is desirable that instead of the Central Land Mortgage Bank floating its own debentures, the Reserve Bank of India floats them on behalf of the Central Land Mortgage Bank and passes on the funds to the Central Land Mortgage Bank. As the Reserve Bank of India Act does not permit the Bank to undertake this business, the Act may have to be amended suitably in this regard. The relief of agricultural indebtedness is one of the duties of the State and so long as the Central Land Mortgage Bank discharges this function there is no reason why the Reserve Bank should not float debentures on behalf of the Central Land Mortgage Bank in the same way as it does on behalf of Provincial Governments.

4. The Reserve Bank of India can be useful to the Central Land Mortgage Bank by putting it in touch with corporations, big commercial firms and financing institutions and advising them to invest their funds in the debentures of land mortgage banks.

The conference may make recommendations regarding the various ways in which the Reserve Bank of India can render assistance to the working of the primary land mortgage banks.

IV (viii) *Is it necessary for land mortgage banks to grant loans to members repayable in 30 annual instalments ?*

Note from Madras.—The Madras Co-operative Central Land Mortgage Bank issues debentures of 20 years and issues loans to primary land mortgage banks for the same period. The primary land mortgage banks also lend to their members for 20 years only.

2. It has been suggested that loans may be given repayable in 30 years by land mortgage banks. The factors that stand in the way of doing so are many. It may not be advantageous to the ryots to borrow for more than 20 years because the reduction in the equated annual instalment after 20 years is very small for each year which is added on to the period of repayment. For example, the amount of equated payment for a loan of Rs. 1,000 repayable in 20 years at 6 per cent. interest is Rs. 87-1-0 while it will be Rs. 78-1-0 if repayable in 25 years and Rs. 73-1-0 if repayable in 30 years. It is not safe also because few loans exceeding 20 years will be repaid in the life time of the borrower and the longer the period, the greater the chances of default and greater the difficulty of recoveries because the mortgager will have died and left the bank to deal with a host of co-parceners, widows, minors, etc. It may not also be possible to extend the period of the loan without increasing the cost of the loan to the borrower as debentures for long periods of, say 25 to 30 years may have to be floated at a higher rate of interest. The conference may consider if the demand for loans for periods exceeding 20 years has been general in other provinces and if it is advisable to give loan for periods exceeding 20 years.

IV (ix) *Are any other modifications required in the working of land mortgage banks ?*

Note from Sind.—The Twelfth Conference adopted a resolution (pages 2-38 of the proceedings) that further development of Land Mortgage Banks should be encouraged. It is proposed that the subject should be discussed further and the experience of provinces which have such banks should serve as a guide to others.

Note from Reserve Bank.—The following suggestions may be considered :-

(*i*) The working of land mortgage banks should be regulated by a separate Act as has been enacted in Madras.

(*ii*) The various restrictions on the transfer of land wherever they exist should be removed so far as the land mortgage banks are concerned.

(*iii*) In some places it is being doubted whether loans for the improvement of agriculture on the mortgage of land could be binding on the co-parceners of a Hindu joint family including minors. This difficulty may be got over by legislation.

(*iv*) Proper arrangements should be made for the education and supervision of members of land mortgage bank.

(*v*) Land mortgage banks may be authorised to give loans to local bodies for village improvement works.

V.—DEBT LEGISLATION AND THE CO-OPERATIVE MOVEMENT.

SIND.

(i) *How far is the co-operative movement affected by the debt and tenancy legislations in different provinces, and should co-operative societies enjoy special privileges. ?*

Note from Sind.—A similar resolution was on the agenda of the twelfth Conference (pages 52-53 of the proceedings). Since then a number of laws have been enacted in different provinces and the position requires to be studied again.

Note by Secretary.—In order that the subject may be discussed properly all the Registrars are requested to send a note explaining the position in their province in regard to debt and tenancy legislation and its effect on the co-operative movement for circulation to the delegates before the conference.

V (ii) *Is it necessary and desirable to provide in any scheme of reduction of agricultural debts that the debtors should not be deprived of such minimum extent of agricultural holding as may be considered necessary for the maintenance of himself and his family ?*

Note from Madras.—In the interests of agricultural economy and the small holders who constitute the backbone of the country, it is necessary that provision should be made in any scheme of debt legislation for saving for the debtor his homestead and a portion of his agricultural holding for the subsistence of himself and his family. This minimum holding should be non-attachable in any legal proceeding that may be taken against the debtor by his creditors. At the same time it is necessary that his homestead and the minimum agricultural holding should be made free from subsequent alienation for any debts he may possibly contract. Else the effect of the protection to be given to him by way of non-attachment will be lost.

The conference may consider whether it is not desirable to have legislation on the subject imposing restrictions on transfer of land and its possible effects on rural credit.

MADRAS.

V (iii) *Has the working of the employees' societies suffered in any way by the recent amendment to section 60 of Civil Procedure Code raising the non-attachable limit to Rs. 100? Is it necessary to safeguard the interests of the societies by any special legislation?*

Note from Madras.—The recent amendment to section 60 of the Civil Procedure Code raising the non-attachable portion of the salary from Rs. 20 to Rs. 100 has made the position of employees' societies more difficult in the matter of recovery of dues from members. The overdues in these societies are likely to go up, unless special measures are taken for prompt recovery. There are in Madras Province 298 societies composed solely of public servants or employees with regular income by way of salaries, with a total membership of 81,139 out of which 71,487 persons (nearly 88 per cent.) draw salaries of Rs. 100 per month and less. Over a crore of rupees is outstanding against the members in these societies out of which a substantial portion is due by those drawing Rs. 100 and less. The societies owe to depositors and others a total sum amounting to Rs. 72 lakhs against which their reserve funds amount to about Rs. 12 lakhs only. Considering the fact that the class of borrowers from whom these loans are recoverable own very little assets other than their monthly earnings, the outlook for the societies is not bright. It is therefore desirable to reintroduce the preferential clause in favour of co-operative societies in section 60 of the Civil Procedure Code, at least in a modified form, raising the non-attachable minimum from Rs. 20 to Rs. 50 in the case of co-operative societies. For this, Central legislation is necessary. As an alternative it has been suggested that rules framed under the Co-operative Societies Act may be amended enabling attachment of salaries exceeding Rs. 50 for dues to co-operative societies. The Conference may consider whether Central legislation cannot be undertaken on the subject or freedom allowed to the Provinces to fix the non-attachable limit in the case of dues to co-operative societies, by suitable amendment to Rules.

VI.—CO-OPERATIVE EDUCATION.

RESERVE BANK.

(i) *The Bank's staff to take up the examination of the Indian Institute of Bankers.*

Note from Reserve Bank.—The Reserve Bank of India has stressed in its publications the importance of developing co-operative banks on modern banking lines and to this end has suggested the training of the existing staff in banking practice and theory. The Indian Institute of Bankers has laid down a comprehensive course of studies in banking and allied subjects and holds an annual examination. It would be very helpful to the co-operative banks if they encourage their employees to take up this examination. The encouragement offered by joint stock banks consists in paying honoraria or giving some increment in pay and preference to those who have passed these examinations in future promotions. The conference may consider these measures and others to encourage their staff to take up the examination.

VI. (ii) *Steps to be taken for the education of members of the co-operative societies and the public in general in regard to the theory and practice of co-operation and the future possibilities of the movement.*

Note from Reserve Bank.—It is recognised that the stagnation of the co-operative movement in various provinces is due to a large extent to lack of proper education of the members of co-operative societies and also the public in general. In view of the illiteracy among the masses of this country, the conference may suggest the steps that should be adopted to speed up the spread of right type of co-operative education. The following methods may among others be considered :—

(*i*) It should be the duty of every member of the co-operative staff who goes to the village in connection with some work or the other to impart education to the members according to a graduated programme.

(*ii*) The education for secretaries and Panches of societies undertaken by different provinces from the grants of the Government of India should be continued even after the grant is discontinued and if possible carried on on a larger scale.

(*iii*) Small pamphlets in local vernaculars should be issued on the subject. They should be in different sets in accordance with the capacity of the different classes to understand.

(*iv*) Dramas, films, gramophone records, and radios should be made use of as much as possible.

(*v*) The co-operative societies should be required to earmark a portion of their profit to finance educational activities.

SIND.

VI. (iii) *Extension of primary education in villages to bring about substantial progress in co-operation.*

Note from Sind.—It has been said that the Co-operative Movement has only touched a fringe of the rural population and has not achieved any substantial progress, as is shown by the history of co-operation in several provinces. The Conference should emphasise the need of education for success of co-operation.

64

VII.—GENERAL.

RESERVE BANK.

(i) *Strengthening the staff of Co-operative Departments.*

Note from Reserve Bank.—It will be for each individual Registrar to consider if the staff of his Department is sufficient to enable him to discharge all his duties properly. It is felt however that in view of the complaints sometimes made that the staff is inadequate, a general discussion on the subject may help to clarify the position regarding the functions which the Department has to discharge and the kind of staff it ought to possess.

It would seem that in spite of a certain amount of decentralisation and the handing over of certain functions to Co-operative Institutes, the duties of the Department have not decreased. The Department has still to take some part in supervision even where this function has been taken over by Institutes. Audit and inspection generally still remain its responsibilities and the work in this connection has increased. Several special types of societies like land mortgage banks, marketing societies, dairy societies, have come into existence and require careful supervision to ensure their working on right lines. There is a drive for more rapid expansion and development of the movement in new directions and this requires careful thought and study. The time has therefore come to take stock of the staff position and to consider whether and in what directions it requires to be strengthened.

The following suggestions might be considered in this connection :—

(1) In view of the development of the movement it is necessary that the Registrar should be given every opportunity to study the working of the movement in other provinces and abroad. Other officers of the Department should also be sent to other provinces for study whenever possible.

(2) There should be one research officer who should be able to devote himself, untrammelled by routine duties, to the study of the different aspects of the movement, the progress made in the province and the directions in which the movement could be strengthened and further developed. The progress of the movement in other countries is to a large extent due to such studies.

(3) There should be one financial expert, who should have practical experience of commercial banking practices and be able to give advice to co-operative institutions on financial matters. He might also be the chief auditor of the movement.

(4) Special activities of the movement like marketing, land mortgage banks, etc., require specialised officers and special training in these matters may be given. Where the Agriculture Department has such officers their being loaned to the Co-operative Department should be considered.

(5) The staff should be adequate and there should be no deterioration of the movement on account of inadequate supervision, audit or inspection.

MADRAS.

VII. (ii) *Scope for the formation of cattle and crop insurance societies.*

Note from Madras.—The question of the formation of Cattle Insurance Societies on co-operative lines was considered by the Madras Government as far back as 1919 and Government directed that a beginning should be made to organise a few societies in suitable localities with a view to gaining experience and arousing an interest in the matter. About half a dozen societies in all were registered up to 1926-27. None of these societies did any work and all of them were wound up by 1932-33. Government also provided for a lump sum grant of Rs. 1,000 in the budget for 1925-26 to be given to cattle insurance societies, to meet the deficit, if any, on account of claims arising on the death of the insured cattle; but the amount could not be utilised as the societies did not do much work.

In Burma, cattle insurance societies were started and linked to credit societies by making insurance compulsory; but the scheme has not been successful. Out of the 219 societies now working only two did insurance business and the rest are dormant. The Registrar of Co-operative Societies, Burma, is of opinion that "cattle insurance societies have no prospects and their dissolution will take place sooner or later."

So far as experience goes, co-operative insurance of cattle has been a failure in the past. There are also no joint stock insurance companies in India which undertake cattle insurance. Evidently they feel that the work may not be sufficiently remunerative as in the case of other forms of insurance.

Cattle insurance is a risky and difficult form of co-operation under the present conditions prevailing in India. The difficulties confronting the problem are :—

(1) What cattle can be insured ?

(2) How to control feeding and sanitation of the insured cattle to reduce risk ?

(3) How to control the health of the animals during the times of epidemics ?

Further there is the want of sufficient data regarding the mortality of cattle in India for fixing the rates of premia on a scientific basis.

These are the drawbacks and difficulties involved in the venture. But they have to be surmounted and a beginning has to be made in select areas—to demonstrate to the ryots the utility and advantage of cattle insurance. The attempts to be made in this direction are two fold—one for improving the strain of cattle by forming cattle breeding societies and the other for safeguarding the cattlewealth by means of cattle insurance societies. Reliable statistics of incidence of cattle mortality have to be gathered in the selected area to serve as a guide in fixing the premia rates, etc. Government help is also necessary to enable societies to meet the claims on the insured cattle if they are unable to meet such claims out of their own resources.

At the instance of the Imperial Council of Agricultural Research, the question of starting cattle insurance societies has been taken up recently and it has been decided to make a fresh start. Salem District has been selected for the experiment. There is already a cattle breeding society working in the district. Steps are being taken to gather the statistics of cattle mortality in Salem and to start one or more cattle insurance societies in that district. The conference may consider the practicability of forming cattle insurance societies and suggest the lines on which investigation should be conducted before such societies are registered and the factors that must exist to ensure their success.

VII. (iii) *Possibility of organising health co-operative societies.*

Note from Reserve Bank.—Health Co-operative Societies based on the health co-operatives in Jugoslavia have been started by the Vishwabharati in the district of Birbhum in Bengal and at present there are 10 such health centres scattered in different parts of the district taking care of 93 villages with a total population of more than 30,000. The working of these societies and the principles on which they are organised are explained in the Vishwabharati bulletin No. 25 on Health Co-operatives issued by the Institute of Rural Reconstruction, Sriniketan. A scheme for formation of such societies has recently been issued by the Government of Madras. It is desirable that other provinces should study these developments and consider the formation of such health co-operative societies for improving health conditions in villages.

VII (iv) *What is the best arrangement under which title to lands can be conveyed to members of consolidation of holdings societies after the scattered holdings have been redistributed without involving much cost to the members.*

Note from Madras.—In the process of consolidation of agricultural holdings, the holdings change hands and it is essential to have such changes recognised legally in order to avoid possible disputes from legal heirs, coparceners, etc. Ordinarily when lands are exchanged among ryots the deed of exchange is got registered under the Indian Registration Act. But such a procedure may not be practicable in a consolidation of holdings society. It involves expense, and causes inconvenience to the parties. A single deed of exchange has to be executed sometimes, by a large number of members meeting at one time and at one place for the purpose of registration and this is well nigh impossible and it is necessary to devise a simple procedure to achieve the object.

In the Punjab, after the exchange of lands is agreed upon, the consolidation Sub-Inspector prepares a draft showing the rearrangements and hands it over to the Patwari (village munsiff); a report is made to the Tahsildar that the record of repartition has been made over to the Patwari who enters the mutations in the village accounts. The Tahsildar also generally visits the village and satisfies himself that the members are agreeable to the mutations. The above arrangements are final and no transfer deeds are executed, for under section 17 of the Punjab Consolidation of Holdings Act IV of 1936 :—

(*a*) no instrument in writing shall be necessary in order to give effect to a transfer involved in carrying out any scheme of consolidation of holdings: and

(*b*) no such instrument, if executed, shall require registration.

Thus in the Punjab, the need for the execution and registration of mutual transfer deed has been dispensed with.

It is not known whether the Patwari intimates the changes to the Registration Department for record in their books. If they are not recorded in the books, difficulty will arise when title to the properties are sought to be established with reference to encumbrance certificates. It is not known whether any difficulty has been experienced so far in the Punjab on this account.

Until, as in the Punjab, registration of transfers is dispensed with, it is necessary to execute and register the documents evidencing transfer of lands to satisfy the requirements of the Transfer of Property Act and the Indian Registration Act. In view of the small number of societies organised so far, it is too soon to think of separate legislation in respect of these societies. But at the same time some arrangements will have to be made by which the members will acquire unimpeachable title to the properties transferred to them as a result of Consolidation of Holdings.

For this purpose, the Registrar of Co-operative Societies or any subordinate authorised by him may be recognised as a proper authority to certify to such change of holdings. By suitable amendments to the Indian Registration Act and the Madras Co-operative Societies Act he may be empowered to certify the change of holdings and send a copy of the certificate to the Sub-Registrar of Assurances for file, and these certificates may be dealt with under section 89 of the Indian Registration Act in the same way as sale certificates issued by the Registrar of the District or the Civil Courts or the Revenue Department.

The conference may consider whether such an arrangement is not desirable and also suggest the several other lines on which the working of the consolidation of holdings societies can be facilitated.

VII (v) *Should the law of limitation be made applicable to co-operative societies ?*

Note from Sind.—This was discussed at the last conference (pp. 65-68 of the proceedings) but the discussion was adjourned for more experience of the Bihar Act and further consideration.

BOMBAY, MADRAS AND SAPRU REPORT.

VII (vi) *Steps to be taken to foster the co-operative stores, where possible, by employing educated men who have received proper training in salesmanship.*

Note from Bombay.—Co-operative Stores Societies have not made any considerable progress in the Province of Bombay and no special attempts have been made to secure through them relief to the educated unemployed. The number of Stores Societies is 25 and most of the employees who work as clerks, salesmen or managers, are educated persons. As the number of societies is, however, small, no substantial relief could have been secured through them to the educated unemployed.

The co-operative sale movement has, however, progressed well in this Province and the co-operative sale takes place either through independent sale societies or through sale shops opened and managed by central financing agencies. The staff employed in some of the sale societies and almost all the sale shops of the central financing agencies for the purpose of sale usually consists of educated men.

The number of educated men employed for the purpose of co-operative sale either in stores societies or in sale societies or shops must be a few hundred. Stores and sale societies together have, therefore, afforded some, though not very considerable, relief to the educated unemployed.

Government of Bombay has sanctioned a scheme of rural development wherein about 1,000 persons will be recruited as rural reconstruction workers. The recruits will be given training for one year. The training will include instruction in the principles of improved agriculture, co-operation, agricultural marketing, cattle breeding, village industries, village panchayat and rural reconstruction in general. After due training, they will be expected to serve as secretaries of multi-purpose societies in addition to other work. It is intended that the multi-purpose societies should, in course of time, take up the work of supplying domestic requirements to agriculturists—the work that is and would be done in urban areas by co-operative stores societies. Those who have passed the Matriculation or the regional language final examination and have knowledge of rural conditions would be eligible for recruitment.

These workers will be whole-time servants paid by Government. They will not, however, be permanent Government servants, but will be expected to take up independent rural citizenship at the end of a period of five years so that other trained persons can take their places. They may, in course of time, after they acquire adequate experience, also become salesmen, secretaries or managers of sale societies.

Note from Madras.—The United Provinces Unemployment Committee, 1935, recommended that steps should be taken to foster and encourage the organisation of Co-operative Stores wherever possible, employing educated men who have received proper training in salesmanship, etc. As early as 1931 the Economic Depression Enquiry Committee, Madras, recommended that an effort should be made to stimulate the teaching and training of staff for conducting trading societies. The Co-operative training institutes then in existence were providing the necessary theoretical training for the purpose referred to by the Committee. Arrangements were also made with certain successful trading societies in the Presidency to take in qualified apprentices for three to six months and to give them practical training in business. In the new scheme of co-operative training inaugurated in 1937, with the help of the Government of India Subvention, the Central Co-operative Institute of Madras arranges every year a course of special training for 2 months for 10 Departmental Inspectors and 20 non-official employees and office bearers of special type societies with a view to enabling them to equip themselves the better to deal with store societies, sale societies, etc. Each non-official is given a stipend of Rs. 20 per month from the Government of India grant. There was thus nothing very new in the recommendation of the United Provinces Committee for the Government of Madras to take further action in the matter.

70

VII (vii) *Consideration of the report of the Agricultural Credit Department of the Reserve Bank of India on the working of English Agricultural Credit Act in regard to agricultural charges as desired by the last conference.*

At the last Registrars' Conference during the discussion on agricultural charge it was decided that the Agricultural Credit Department of the Reserve Bank of India should study the working of the English Agricultural Credit Act of 1908 and find out how the provisions relating to penalising the fraudulent disposal of any commodity subject to a charge had worked in that country. The report submitted by the Reserve Bank is included in the correspondence showing the action taken on the recommendations of the 12th conference.

VII (viii) *Special measures which co-operative societies may have to take in view of the war.*

Note from Reserve Bank.—War, especially if prolonged, usually results in an increase in the price of agricultural commodities. What however is generally not appreciated is that such an increase is primarily due to artificial and temporary causes like the dislocation of transport and the curtailment of productive activity due to the diversion of energies to the prosecution of war, and is therefore likely to pass away when normal conditions are restored. As an aftermath of the war and its stimulus to production prices may not only go back to their former level but may even recede further. The mistake which was made after the last war was that the higher prices were looked upon as having come to stay, and the lesson of the last war is that any prosperity that may ensue for the agriculturist is of a temporary and artificial nature.

It is in the light of this cardinal fact that any policy with regard to agricultural credit must be framed ! A certain amount of expansion of credit will undoubtedly be necessary if the cost of crop production increases but it will obviously be a mistake to increase credit to the full extent that the rise in prices might seem to justify. The experience of the last war shows that if the temporary boom is made the occasion for reckless grants of credit the cultivator instead of finding himself any the better as a result of the prosperity only finds himself again hopelessly involved in debt when the aftermath sets in. Not only should the cultivator be not allowed to borrow excessively on the strength of the temporary rise in prices but he should also if possible be prevented from living extravagantly and frittering away all his increased income in useless expenditure. He should be induced to utilise it in the first place to discharge his prior liabilities and thus free himself from debt and secondly to lay by the surplus to provide for the future. The co-operative societies must therefore lay an increased stress on thrift and avoidance of unnecessary expenditure. They must induce the members to utilise this opportunity of getting rid of their old debts. Above all they must carefully regulate credit and avoid lending excessively.

At the same time it will be necessary to ensure that the benefit of any increased prices reaches the cultivator and is not intercepted by the middleman. For this purpose greater efforts will have to be made for the regulation of markets, the organisation of co-operative supply and sale societies, and the building of warehouses. This will also enable governments to enforce more effectively any policies of price control which may be necessary. The integration of credit, marketing and supply which the Reserve Bank has been advocating will be all the more necessary during this period if the cultivator is to get full share of any rise in prices.

Co-operative banks may find on one hand that there is a considerable withdrawal of deposits and on the other that there is an increased demand for loans. They will have to be careful not to increase the rate of interest unduly in order to attract deposits. They will also have to guard against the danger of over-extending their position by granting loans too freely. The depreciation in the value of Government securities might also cause embarrassment to the banks. They have no alternative but to hold on to the securities since prices have already dropped considerably and any bank coming into trouble on this account may require special assistance.

Land mortgage banks will have to pay a higher rate of interest on debentures and reduce the period for which they are issued. In fact for some time it may be impossible to issue any debentures at all. On the whole it will be advisable for them to restrict their business, since they will have to lend at a higher rate which, though it may be paid willingly by the borrower while higher prices last, might be difficult for him to bear when prices go down.

House-building societies should also decrease their activities as it is not desirable to encourage house-building out of borrowed capital when the cost of building is high.

Co-operative stores may be useful in saving consumers from the profiteering activities of traders, if they can be established on sound lines.

Employees' societies will require careful attention. The increased cost of living might necessitate increased borrowing by members and it will have to be seen that while their urgent needs are met they do not get overindebted.

On the whole it will be seen that the war will give rise to new problems for the co-operative movement. It is most important that the lessons of the last war should be learnt and its errors and if possible its aftermath should be avoided. A policy of drift in connection with agricultural credit and the co-operative movement might give rise to serious difficulties later on while careful thought and organised efforts might enable the country not only to tide over the difficulties but put agricultural credit and the co-operative movement on a stronger and healthier footing. It is essential therefore that the Registrars and the leaders of the co-operative movement should have a well thought out plan for the expansion and the strengthening of the movement.

GIPD—MS—367 D of EH&L—20-11-39—500.

Appendix F G—1]

SUBJECT.....

.....

.....

Section C.S.

File No. 109-38

Serial No. 2

Diary No. of letter replied to .....

No. D 36

To The Registrar G.C.S.

Sir

General and Revenue Secretariat

( )

the *193* .

I am directed to invite reference to a circular letter No. A.C.D/528/39-39 dated 12/6/39 from the Agricultural Credit Dept of the Reserve Bank of India to all Provincial and Central Cooperative Banks on the reorganisation of the Cooperative movement on banking lines and to request you to forward a report as to how far the suggestions made by the Bank could be adopted.

Date of issue 1-7-39

Signed by [illegible]

List of enclosures.....

Copied by.....

Examined by.....

I have etc

[illegible]

28/6.

for Secretary

GOVERNMENT OF HIS HIGHNESS THE MAHARAJA OF MYSORE

General and Revenue Secretariat

Dated, Bangalore, ~~30th June~~ 1939.

No. A 36/Co. 109-38-2 1. 7. 39

From

The General Secretary to the Government of His Highness the Maharaja of Mysore.

To

The Registrar of Co-operative Societies in Mysor
Bangalore.

Sir,

I am directed to invite reference to a circular letter A.C.D.528/37-39 dated 12th June 1939 from the Agricultural Credit ~~Depot~~ Department of the Reserve Bank of India to all Provincial and Central Co-operative Banks regarding the re-organisation of the Co-operative movement on banking lines and to request you to forward a report as to how far the suggestions made by the Bank could be adopted.

I have the honour to be,
Sir,
Your most obedient servant,

17/7/39

for General Secretary to Government

Aga/2.

CS 109-38-3

No. 10833 C. S. Enq

GOVERNMENT OF MYSORE

DEPARTMENT OF CO-OPERATION

Telegraphic Address
"CO-OPERT"
Bangalore.

OFFICE OF THE REGISTRAR OF CO-OPERATIVE SOCIETIES
IN MYSORE,

Dated Bangalore, 19th March 1940.

3773

FROM

M. ABDUL HUKH, ESQ., B.A.,
Registrar of Co-operative Societies in Mysore,
BANGALORE.

GENERAL SECRETARY. 20 MAR 1940

To

J.Appaji Gowda, Esq., B.A., (Hons),
General Secretary to the Government
of Mysore, B a n g a l o r e.

Sir,

With reference to your letter No.A.F.480 C.S.109-38 dated 5th March 1940 requesting that a reply may be sent to your letter No.D.36/C.S.109-38-2 dated 1st July 1939, on the question of the reorganisation of the Co-operative Movement on Banking Lines recommended by the Reserve Bank of India in their Circular No.A.C.D. 528/77-39 dated 12th June 1939, I have the honour to invite your kind reference to my letter No.5886 C.S.dated 4th December 1939 informing that the question has been included in the Agenda for the 13th Conference of Registrars of Co-operative Societies and also to my letter No.8695/C.S.dated 7th February 1940 forwarding a Memorandum showing the resolutions passed at the Conference and the action taken or proposed to be taken thereon in which the subject under advertance has been dealt with. For ready reference, I send herewith a Memorandum showing the subject, the relevant resolutions passed at the Conference and the action taken or proposed to be taken by me.

Letter separately - 19th Inst.

With regard to the question of the ~~proposition~~ proportion of deposit liabilities to owned capital referred to in the Circular of the Reserve Bank of India, on which the Conference has not expressed any opinion, I may invite kind reference to Government Order No. D.5165/C.S.36-26-29 dated 15th November 1927 on the resolutions passed at the Ninth Conference of the Registrars, in para 3 of which the maximum limit of borrowings of societies has been fixed and this is followed by the societies and Banks. Generally in the bye-laws of all societies and Banks the maximum borrowing limit (deposits

P.T.O.

(deposits and loans) is specifically fixed.

The regulation of the rates of interest on deposits is another point referred to in the Circular on which the Conference has not expressed any specific opinion. But the principles enunciated the Reserve Bank viz.,(i) Co-operative Banks not to take fixed deposits for periods exceeding two years at the most (ii) rate of interest on deposits not to exceed the Bank rate and (iii) acceptance of current deposits so to reduce the average borrowing rate are - being followed by most of the Banks and societies. But in the - present financial condition of the Apex Bank and the Bangalore Central Co-operative Bank, these two institutions cannot dispense with the attraction of long-term deposits unless they can raise the capital now locked up in frozen debts from other sources viz., debentures.

I have the honour to be,
Sir,
Your most obedient servant,

Registrar.

L.S.18/3.

(deposits and loans) is specifically fixed.

The regulation of the rates of interest on deposits is another point referred to in the Circular on which the Conference has not expressed any specific opinion. But the principles enunciated the Reserve Bank viz.,(i) Co-operative Banks not to take fixed deposits for periods exceeding two years at the most (ii) rate of interest on deposits not to exceed the Bank rate and (iii) acceptance of current deposits so to reduce the average borrowing rate are - being followed by most of the Banks and societies. But in the - present financial condition of the Apex Bank and the Bangalore Central Co-operative Bank, these two institutions cannot dispense with the attraction of long-term deposits unless they can raise the capital now locked up in frozen debts from other sources viz., debentures.

I have the honour to be,
Sir,
Your most obedient servant,

Registrar.

L.S.18/3.

3

MEMORANDUM.

Subject.	Resolution.	Action taken or proposed to be taken.
I-Finance.		
(i) (1) How far is it practicable and desirable for Provincial and Central Co-operative Banks to follow the banking principles indicated in Circular No.A.C.D. 528/77-39, dated the 12th June 1939 of the Agricultural Credit Department of the Reserve Bank of India, particularly in regard to- (a)Distribution of assets (b)Period of loans (c)Classification of loans (d)Treatment of overdue interest (e)Maintenance of Reserve Funds (f)Regulation of interest on deposits.	1.This Conference recommends that the scale of fluid resources fixed for each Province should be reviewed in the light of the distribution of working capital as suggested by the Reserve Bank and the results to be put before the next Conference. In any case the scale of fluid resources prescribed by the appropriate authority should be strictly adhered to.	1.Rule 20-A.of the Mysore Co-operative Societies Rules governs the scale of fluid resources. No standard has been fixed by Government. A copy of the Circular issued by the Registrar in 1931 is enclosed for the information of Government. The scale fixed in the Circular appears to be suitable. The points raised in the Circular of the Reserve Bank of India will be intimated to the Apex and Central Banks and the more important urban Co-operative Banks, and their views obtained with facts and figures. This will be consolidated and reviewed and the review arranged to be placed before the next Conference.
	2.Primary Agricultural Societies other than Land Mortgage Banks should only give short and intermediate term loans repayable in a fixed period ordinarily not exceeding three years and with due regard to the purposes of the loans.	2. A Circular has been issued already on the subject. Another Circular will issue to all societies. The Apex Bank has also been requested to keep this in view while sanctioning loans to primary societies.
	3. Provincial and Central Banks shoul in their Balance sheets show the amounts advanced for more than one year and the amounts outstanding for more than one year Bad and doubtful debts should be carefully estimated and shown in the Balance Sheets.	3. A copy of this resolution has been forwarded to the Apex Bank for information and guidance.
	4. In the Balance Sheet all unrealised interest should be shown under the following heads:- (i)Interest recoverable from D.Class societies(and also E.class societies where this class exists). (ii)Interest recoverable from societies under liquidation.	4. A copy of this resolution has been forwarded to the Apex Bank for information and guidance.

doubtful debts.

(iv) Other interest recoverable:-

(a) Interest earned on accounts on which no interest is overdue.

(b) Interest on accounts on which interest is already overdue.

5. The Reserve Funds of Provincial and Central Banks should be constituted out of realised net profits and should either directly or through the Provincial Bank concerned be invested outside the Movement in unencumbered trustee securities, approved by the Registrar, other than mortgages of immoveable property.

6. That loans should be advanced in the form of seed, fertilisers and implements where practicable after a survey of requirements.

7. As regards the guidance, supervision and control by the Provincial Banks over the financial policy of Central Banks-

(i) All Co-operative Banks should send a monthly statement of their financial position to the Provincial Bank or in the case of Bombay to the Central Banks' Association.

(ii) The Provincial Bank may act as an investment agency for the affiliated Central Banks. Those Central Banks which want to invest their funds in securities direct should consult the Provincial Banks or the Financial Adviser, if any, before doing so.

(iii) The rate of interest in Co-operative Banks on deposits should, not without the sanction of the Provincial Bank or Registrar, exceed the lending rates of Provincial Banks on loans given for similar periods.

(iv) The Provincial Bank should have a right to inspect Central Banks and to *

* to bring to the notice of the Registrar any serious defects in their working.

5. A copy of this resolution has been forwarded to the Apex Bank for information and guidance. But till the unrealised - accrued interest shown in the assets side of the balance sheet less the interest reserve shown on the liability side of the balance sheet of the Bank is wiped out, this will only be a pious wish. Anyhow, the Bank has since 1-7-1936 adopted the policy of a cash realisation basis for distribution of profits.

6. A Circular is under issue to societies. The Apex Bank has also been intimated of this, so that in the case of applications for loans (for seeds etc) the amount may be paid direct to the firm selling the seeds etc.

7. There are no active Central Banks in the State. The existing ones are in the course of being wound up.

Registrar.